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r 4. Ag 8/1:96-MM/pt.1

**FEDERAL CONSERVATION AND FARM
CREDIT ACT AMENDMENTS**



96-1

HEARINGS
BEFORE THE
SUBCOMMITTEE ON
CONSERVATION AND CREDIT
OF THE
COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES
NINETY-SIXTH CONGRESS

FIRST SESSION

ON

H.R. 3693, H.R. 3789, H.R. 4314, and H.R. 4782

SEPT. 11, 1979, WASHINGTON, D.C.
OCT. 2, 1979, HUTCHINSON, KANS.
OCT. 3, 1979, ABERDEEN, S. DAK.
OCT. 4, 1979, MEMPHIS, TENN.
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FEDERAL CONSERVATION AND FARM CREDIT ACT AMENDMENTS



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FEDERAL CONSERVATION AND FARM CREDIT ACT AMENDMENTS

TUESDAY, SEPTEMBER 11, 1979

**HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CONSERVATION AND CREDIT
OF THE COMMITTEE ON AGRICULTURE,
*Washington, D.C.***

The subcommittee met, pursuant to notice, at 10:10 a.m., in room 1302, Longworth House Office Building, Hon. Ed Jones of Tennessee (chairman of the subcommittee) presiding.

Present: Representatives Harkin, Glickman, Hance, Baldus, Bedell, English, Daschle, Madigan, Marlenee, and Hopkins.

Also present: Representative de la Garza of the full committee.

Staff present: Eleanor S. Walsh, clerk; Robert A. Cashdollar, Wayne A. Fletcher, Kate Garvin, Samuel P. Hayes, James W. Johnson, Jr., Frances Monaghan, and Frank Winston.

OPENING REMARKS OF HON. ED JONES, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TENNESSEE

Mr. JONES of Tennessee. The Subcommittee on Conservation and Credit will come to order.

The Subcommittee on Conservation and Credit is meeting this morning for the purpose of opening a series of hearings on potential methods of improving and expanding conservation of America's farmland.

Today's hearings are the first of several which the subcommittee will hold in the coming weeks. Included in our schedule of hearings are visits to the States of Washington, Oregon, South Dakota, Kansas, Illinois, and Tennessee.

This hearing and the others which will follow will examine three principal areas. The first of these is the Great Plains conservation program. As you all know, this program is scheduled to expire in 1981.

However, there are three bills which have been introduced in the House and referred to this subcommittee which would extend the Great Plains program. They are H.R. 3693 by Representative Sebelius; H.R. 3789 by Representative de la Garza; and H.R. 4314 by Representative Daschle.

The second subject to be examined in these hearings is the agricultural conservation program. ACP has done an outstanding job with limited resources, in the past. But a serious review of this program

and its level of assistance is needed if we are to go about solving the serious problem posed by continuing erosion of our Nation's soil.

The last area on which these series of hearings will focus is that of possible new incentives to encourage farmers to practice conservation farming. I believe it is time to consider new ideas and make a new commitment to the challenge of soil conservation.

A package of several diverse elements may well be needed, and I hope these hearings will bring to light some new and different approaches which could help meet this challenge.

We are delighted to have with us today witnesses whom we will be hearing. I will not limit any of the time today for the Members of Congress and others who will be here this morning for the purpose of testifying.

This is sort of a mixture of hearings that the subcommittee put together for the purpose of trying to save your time as well as the time of the subcommittee. Therefore, today, some witnesses will be talking about reauthorizing the Great Plains program. That is quite an important program. I am sure that all of you will agree with that.

Then, there will be others who will be bringing to us a review of the agricultural conservation program, commonly known as ACP. There will be recommendations for updating.

Then, there will be some recommendations for some new programs made by some Members who are here. The truth of the matter is that there will be some who may be talking about all three topics. If you are, then that will be fine. We are making this a type of a hearing so the subcommittee can look at all the issues and formulate some projected future legislation.

[The bills, H.R. 3693, H.R. 3789, and H.R. 4314 follow:]

[H.R. 3693, 96th Cong., 1st Sess.]

A BILL To amend section 16(b) of the Soil Conservation and Domestic Allotment Act, as amended, providing for a Great Plains conservation program

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 16(b) of the Soil Conservation and Domestic Allotment Act (70 Stat 1115, as amended; 16 U.S.C. 590p(b)) is amended by—

(1) in the second complete sentence of paragraph (1), striking out "Such contracts may be entered into during the period ending not later than December 31, 1981," and inserting in lieu thereof "Such contracts may be entered into"; and

(2) in paragraph (7), striking out the colon preceding the word "Provided" and all that follows down through "\$25,000,000".

SEC. 2. This Act shall become effective October 1, 1979.

[H.R. 3789, 96th Cong., 1st Sess.]

A BILL To amend 16(b) of the Soil Conservation and Domestic Allotment Act, as amended, providing for a Great Plains conservation program

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 16(b) of the Soil Conservation and Domestic Allotment Act (70 Stat. 1115, as amended; 16 U.S.C. 590p(b)) is amended—

(1) by deleting the third and fourth sentences of paragraph (1) thereof beginning with "Such contracts may be entered into * * *" and inserting in lieu thereof the following: "Such contracts may be entered into during the

period ending not later than September 30, 1987, with respect to farms, ranches, and other lands in counties in the Great Plains area of the States of Colorado, Kansas, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas, and Wyoming, and in counties in other States, designated by the Secretary as susceptible to serious wind and/or water erosion by reason of their soil types, terrain, and climatic, soil, topographic, flood, saline, other natural hazards, and other factors. The landowner or operator shall furnish to the Secretary a plan of farming operations or land use which incorporates such soil and water conservation practices and principles as may be determined by him to be practicable for maximum mitigation of climatic, soil, topographic, flood, saline, and other natural hazards of the area in which such land is located, and which outlines a schedule of proposed changes in cropping systems or land use and of the conservation measures which are to be carried out on the farm, ranch, or other land during the contract period to protect the farm, ranch, or other land from erosion and deterioration by natural causes.”; and

(2) by deleting in the first sentence of paragraph (7) thereof everything following the word “subsection” and inserting in lieu thereof a period.

[H.R. 4314, 96th Cong., 1st Sess.]

A BILL To extend for ten years the period during which the Secretary of Agriculture may enter into contracts under the Great Plains conservation program, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) section 16(b)(1) of the Soil Conservation and Domestic Allotment Act (16 U.S.C. 590p(b)(1)) is amended by striking out “December 31, 1981” and inserting in lieu thereof “December 31, 1991”.

(b) The provision section 16(b)(7) of the Soil Conservation and Domestic Allotment Act (16 U.S.C. 590p(b)(7)) is amended—

(1) by striking out “\$300,000,000” and inserting in lieu thereof “\$500,000,000”; and

(2) by striking out “\$25,000,000” and inserting in lieu thereof “\$50,000,000”.

Mr. JONES of Tennessee. Our first witness this morning is Virginia Smith, a Member of Congress from Nebraska. She is delightful and has been with us before; a great supporter of agriculture and a great help every time we have had need for witnesses on subjects such as these this morning.

Congressman Virginia Smith has been in the Congress for some time now. She has a fabulous background and has oriented all of her life and dedication to agriculture.

Virginia, it is good to have you here this morning; welcome.

STATEMENT OF HON. VIRGINIA SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Mrs. SMITH. Thank you for those kind words, Mr. Chairman.

I want to commend you, Mr. Chairman, and members of the subcommittee, for initiating this series of hearings on potential methods of improving and expanding conservation of one of our greatest natural resources, the Nation's farmland.

Anyone who has seen the Department of Agriculture's figures on the losses of top soil knows that we still have a serious conservation problem. We can take some consolation in the fact that we are improving. These losses have been cut to one-half that of an earlier estimate and 1 ton less than the average loss reported by the Soil Conservation Service 10 years ago.

But the losses are still too high. The average loss from surface erosion by water is 4.8 tons per acre per year. We have been told that an annual soil loss of about 4 tons per acre is "permissible" for many types of soil, since at that rate new soil can be created about as fast as soil is lost.

In many areas we are just holding our own while in others, it is a losing battle: Conservation programs must be improved. We must use all of the tools we have and make them more effective.

In some areas, the situation is much more grave. In Nebraska—the State I come from—we are losing 7 tons an acre where we constantly have to fight both wind and water erosion.

Since I represent counties in the Great Plains area, I am anxious to see the Great Plains conservation program continue beyond its December 1981 expiration date. We are participating actively in this program. In fact, we have only 9.5 million acres under this program.

I know firsthand what this program has meant to the 61 counties in Nebraska eligible for cost-sharing practices under the program. All but two of the counties are in the district I have the honor of representing.

In them, we must wage a constant battle against wind and water erosion. We like to think we are winning the battle in Nebraska. I would hate to think what it would be like without a Great Plains conservation program.

The Federal Government has invested more than \$25 million in long-term cost-sharing programs in Nebraska under the Great Plains conservation program. These funds have been matched by landowners to establish permanent cover, construct terraces, improve watering facilities for livestock, build windbreaks, including shelterbelts, improve irrigation systems, and generally provide for better utilization of water.

These practices have made it possible for Nebraska and other States in the High Plains area to have a tremendous production record. These practices have helped us maintain our position as one of the leading agricultural States in the Nation. Collectively, with our sister States in the Great Plains region, we provide 60 percent of the Nation's wheat; 30 percent of the cattle, and significant amounts of corn, sheep, swine, grass, hay, and cotton.

We could not do this without the help of the Great Plains conservation program. Since it started, there have been 6,982 contracts covering practices on 9,467,000 acres.

The Nation depends upon this production of food and fiber. It is essential to our domestic well-being, and it helps feed and clothe millions around the world.

The 20-year record of the program is so good it deserves to become a permanent conservation tool for preserving the soil in the Nation's breadbasket and building its productivity to serve future generations.

I have joined with my colleague, the gentleman from Kansas, Mr. Sebelius, in sponsoring legislation to put the program on a permanent basis. This bill, H.R. 3693, is one of those you have under consideration during these important hearings.

Efforts have been made to phase out the program and reduce the funds available to it. The House of Representatives and the Senate have already spoken on these proposals.

In the agriculture appropriations bill for fiscal year 1980, funds were restored to the 1979 program level, and the proposal to place the Great Plains conservation program under the agricultural conservation program—ACP—was turned down.

I respectfully urge you to take your cue from this action recognizing the program's value and its acceptance, and report this bill to extend the Great Plains conservation program on a permanent basis.

Thank you.

Mr. JONES of Tennessee. Virginia, we, in the subcommittee, thank you very much.

Before you leave, let me ask members of the subcommittee if they have any questions they would like to ask you.

If there are no questions, then we thank you very much, Virginia. We will take your statement and seriously consider it.

Our next witness is Hon. Douglas K. Bereuter, a Member of Congress from Nebraska.

Mr. Bereuter, you may proceed.

**STATEMENT OF HON. DOUGLAS K. BEREUTER, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF NEBRASKA**

Mr. BEREUTER. Thank you, Mr. Chairman.

Mr. Chairman, I would like to thank you and the members of the Conservation and Credit Subcommittee for giving me the opportunity to express my views on one of the Federal Government's most proven and effective conservation programs—the Great Plains conservation program.

I would also like to thank you for the courtesy of giving me an early opportunity to testify since I am due in a markup session of the Water and Power Resources Subcommittee of Interior.

The Great Plains conservation program was established in 1956 to help residents of the 10 Great Plains States combat the area's climatic hazards. Since the program's inception in 1956, 7,061 contracts have been signed with landowners in Nebraska, covering approximately 9.6 million acres. During the same period, many hundreds of thousands of acres have been treated with conservation practices, earning over \$20 million in cost shares. The program has provided both technical assistance and direct financial assistance on a cost-sharing basis under contracts from 3 to 10 years to farmers and ranchers of the Great Plains region who would voluntarily conduct soil and water conservation on their land.

As members of the subcommittee know, practices authorized for cost sharing in counties eligible for the Great Plains program include establishment of permanent plant cover, reseeding grassland, stripcropping, terracing, construction of fences, diversions, wells, reorganizing irrigation systems, as well as other measures.

This program has been extremely popular with landowners in Nebraska because it provides the long range contract assurance that the funds will be available when needed, while still assuring adequate flexibility.

To phase out one of the effective tools of conservation in the Midwest would result in a reduction in technical services available to farmers and ranchers in a 61 county area. At present, the Soil Conservation

Service has about 140 technical positions in 61 Nebraska counties. Discontinuing this program would result in a cutback of about 30 positions.

Under its unique political subdivision, our natural resources districts, Nebraska has made consistently greater demands on the technical assistance provided by the reduction of manpower which has hampered the program's activities.

It is my feeling the personnel must be stepped up rather than cut back, in order that we may provide these districts with the technical expertise to prevent this area from becoming as arid as it was in the 1930's.

Mr. Chairman, there is one further point I would like to make with regard to the benefits the Great Plains conservation program has provided for the farmers and ranchers in that 61-county area. Of those 61 counties eligible for this program, only 2 are included in my district. Naturally, I would like to have all the counties in my district eligible for this program. However, at this point in time, I am primarily concerned with the continuation of the program.

The latest reports from the Department of Agriculture on wind erosion conditions in the Great Plains States shows that 682,254 acres were damaged as of December 31, 1978. Of that total, 86 percent was cropland, 10 percent rangeland, and 4 percent other land.

Needless to say after reviewing these figures, I was not surprised when I read that during a television appearance last fall, Secretary of Agriculture Bob Bergland commented:

We are on a collision course with disaster. Water supplies are being reduced and the erosion of American farmland today is probably at a record high. This simply cannot go on.

I can certainly see that the Secretary understands the problems of soil erosion. I just wish he would pass his thoughts on to the budget experts in the administration. There appears to be a feeling among the people who prepare the budget that Federal responsibility for helping private landowners with soil and water conservation should be limited.

It is my belief that many conservation districts are willing to take an increasingly more important role as it relates to the actual operation of the conservation districts. However, Federal funding of these programs is a necessity, not just to the private landowner, but to all Americans.

If we turn our backs on programs, such as the Great Plains conservation program, it will be more than the farmers who suffer.

However, Mr. Chairman, there is one major point that I would like to make today with regard to the extension of this program. Indeed, it is the reason why I come before you today as a Congressman whose district is little affected directly by this program.

Of the 61 counties in my State that are part of the Great Plains program, only 2 are in my district. I have followed this program and its very fine results for many years prior to coming here. I am a convert, or a proponent, of the type of approach that underlies this program. I thought that perhaps coming to you from a district that was not so vitally concerned directly, my testimony might have a bit more impact.

I feel it is a crucial point for you and the members of the subcommittee to consider. It is this: Right now an evaluation is being completed on the Great Plains conservation program by USDA, as directed by the Resources Conservation Act.

I have received indications that one of the primary themes of their evaluation focuses favorably on the effectiveness of long-term contracting in conservation, the long-term commitment to soil and water conservation, which is what makes the Great Plains program so attractive to farmers and ranchers in my State.

It seems inconceivable to me that the USDA might be basing much of its future conservation policy on a concept of long-range commitments to soil and water conservation by farmers and ranchers—which is the foundation of the Great Plains program—yet eliminate the prototype program.

The absurdity of not continuing the program until the evaluation is completed is beyond reason, especially considering the direction the findings seem to be taking. I feel confident that the Great Plains conservation program will receive high marks in any evaluation that is conducted.

I would request that you give strong consideration to extending the long-term contracting features of the Great Plains conservation program, as well as to other Federal conservation program.

The constantly changing policy of acreage set-aside demand more long-range commitments to conservation—not less. This long-term approach to soil and water conservation requested of landowners under the Great Plains program should be emulated by other soil and water programs and may, after these current studies now underway in USDA are complete, be the future direction of soil and water conservation. Indeed, I think it is not “may” but “will” be the future direction.

Mr. Chairman, I would once again like to take the opportunity to thank you, and the members of the subcommittee, for letting me appear before you today, and express my concerns about this very worthwhile program.

Thank you.

Mr. JONES of Tennessee. Thank you very much.

We appreciate the fact that you took the time. Although you do not have a problem in your own district, it shows the concern that you have.

If there are no questions, Mr. Bereuter, we thank you very much.

Our next witness is Hon. E de la Garza, who is chairing the full Agriculture Committee meeting at this time. We will hear from him later this afternoon.

Our next witness is also a Member of Congress, Hon. Keith Sebelius.

Apparently he is in the full committee meeting. We will bypass him for the moment. If he shows up later on, we will take time out for him.

The next witness is Dr. Rupert Cutler, Assistant Secretary of Agriculture for Natural Resources and Environment, USDA.

He is accompanied by Mr. Edward Thomas, Assistant Administrator for Land Resources, Soil Conservation Service, USDA.

Dr. Cutler, we are delighted to have you. Mr. Thomas, we are glad that you are here.

Please proceed in any way you see fit.

STATEMENT OF M. RUPERT CUTLER, ASSISTANT SECRETARY OF AGRICULTURE FOR NATURAL RESOURCES AND ENVIRONMENT, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY EDWARD E. THOMAS, ASSISTANT ADMINISTRATOR FOR LAND RESOURCES, SOIL CONSERVATION SERVICE

Mr. CUTLER. Thank you, Mr. Chairman.

It is a pleasure to appear before this subcommittee to discuss the conservation of our land, water, and wildlife resources.

Our testimony today will include information concerning the operation, accomplishments, and effectiveness of the Great Plains conservation program, including the status of natural resources activities in this Department.

The subcommittee has requested testimony on possible new incentives to encourage soil and water conservation practices. We will report on our extensive efforts in that regard.

Finally, Ray Fitzgerald, Administrator of the Agricultural Stabilization and Conservation Service, will provide the subcommittee with oversight information on the agricultural conservation program. Recently we have redirected this program, and we believe these efforts have been quite successful.

Mr. Chairman, Secretary Bergland and I share your deep concern for the soil, water, and related resources of our Nation.

We have recently reorganized the Department to strengthen our natural resource activities. The Department's two major natural resource agencies, the Forest Service and the Soil Conservation Service, along with our Office of Environmental Quality, which monitors the Department's response to the National Environmental Policy Act, the Secretary's land use policy, and other departmentwide programs, now receive my full attention as Assistant Secretary for Natural Resources and Environment.

You will recall, Mr. Chairman, that my title prior to July 20 was Assistant Secretary for Conservation, Research, and Education.

This reorganization will allow the Department to focus additional attention on natural resource matters. At the same time, we have elevated to the policy staff level the Director of Science and Education to give research and extension programs full-time policy staff-level attention. That is Dr. Anson Bertrand, who is now a member of the Secretary's Program and Budget Review Board.

Secretary Bergland has repeatedly expressed deep concern for the pressures being placed on our Nation's soil, water, forest, and wildlife resources.

Recent studies have shown that nearly 3 million acres of rural land are being permanently converted to nonagricultural uses each year. While some new lands are continually being brought into production, we are concerned about the long-range implications of these shifting land uses.

The loss of prime agricultural land, coupled with the search for new energy sources, may bring more marginal land into production with a resultant increase in erosion and degradation of environmental quality. These same pressures may also encourage more intensive farming and a loss of valuable wildlife habitat.

Now let me discuss the status of our natural resources for a few minutes.

The Department of Agriculture has a long history of effort to conserve soil and water resources. Where soil is concerned, many billions of dollars have been spent over several decades in our attempts to control erosion. Historically, however, soil conservation programs have been at a disadvantage owing to a lack of information and reliable techniques by which to estimate erosion rates under alternative conditions. Consequently, assistance has been made available to any farmer who wanted help regardless of the extent or severity of his conservation problem.

In an effort to attract farmers to conservation, technical and financial assistance has been made available, not only for conservation practices, but also for those which tended to yield benefits in the form of higher yields.

This is understandable inasmuch as we have not fully known the impacts of different practices on erosion in different settings. The decision as to whether or not a certain practice should be used to solve an erosion problem has historically been largely left to the judgment of field personnel. Similarly, field staff have historically made decisions on the extent and severity of conservation problems primarily on the basis of experience.

Five decades of agricultural research have helped to improve this situation tremendously. By the 1940's, enough basic data on runoff and soil loss had been collected and analyzed that a relatively simple technique for calculating field soil loss could be devised for certain parts of the Corn Belt. This predictive technique eventually became known as the Universal Soil Loss Equation.

Subsequent Federal-State cooperative research contributed over 10,000 plot-years of basic runoff and soil loss data to help improve the accuracy and reliability of the basic erosion estimate technique.

After 1960, rainfall simulators were used to expand the conditions which could be accommodated by the erosion prediction technique. Developments since 1965 have continued to refine the basic equations for estimating soil loss, as well as to improve its accuracy and reliability.

Although some of our field technicians have used the procedures for estimating soil loss under alternative conditions, in recent years these procedures were not used to develop the information needed to plan and manage erosion control programs. Beginning in 1977, however, this Department began to move in that direction. The first step came in the form of a national resources inventory undertaken by the Soil Conservation Service. The second step came in the form of an extensive study of the impacts of practices installed with financial assistance from the agricultural conservation program.

The results of the national resources inventory are both reassuring and disturbing. The reassuring results include information suggesting that almost two-thirds of the total cropland acreage currently under cultivation in the United States is not highly susceptible to severe erosion by water.

Moreover, about 317 million acres of our Nation's cropland is suffering sheet and rill erosion at rates under 5 tons per acre per year, or

at rates below those which adversely affect the short-term productivity of the resource.

The disturbing results include the fact that over 41 million acres of cropland suffer from sheet and rill erosion rates in excess of 10 tons per acre annually. In addition, almost 56 million acres of cropland are undergoing sheet and rill erosion between the acceptable 5 tons per acre per year and 10 tons per acre per year.

As for wind erosion, some 22.4 million acres are experiencing wind erosion rates of over 10 tons per acre per year. Another 16.7 million acres are suffering from wind erosion at rates between 5 and 10 tons per acre per year.

Mr. Chairman, I would like to request that a summary of the national resources inventories be made a part of the record.

[The material referred to appears on p. 19.]

Mr. CUTLER. Secretary Bergland and I firmly believe that the Department's conservation programs must be carefully targeted to high priority problems and areas in order to increase their effectiveness under existing personnel and budget limitations.

The Great Plains conservation program was created to address conservation problems unique to a particular area. This practice of targeting a program to an area has recently been used to set up the erosion control programs in your district in west Tennessee where the erosion problem is particularly severe. We are doing that in conjunction with the Tennessee Valley Authority under a new cooperative agreement that Mr. Freeman and Secretary Bergland recently signed in your district.

The Great Plains conservation program originated in response to the "dirty '30's," when dust from the Great Plains settled on the windowsills of Washington, D.C. As of September 30, 1978, the Great Plains conservation program has obligated over \$246 million to bring conservation to approximately 105 million acres.

This program provides technical assistance and cost sharing to farmers and ranchers in 469 counties in the 10 Great Plains States of Colorado, Kansas, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas, and Wyoming for the purpose of applying soil and water conservation practices to their land. The Soil Conservation Service administers this program.

The landowners or operators enter into a contract with USDA that is based on a conservation plan prepared by the farmer. The contract may cover a 3-year to 10-year period for installation of the needed conservation work. This program constitutes Federal recognition of the unique and critical problems of soil and water conservation in the Great Plains.

The original act included an expiration date of December 31, 1971, and was extended for 10 years by act of Congress in 1969. Authority for the program will expire December 31, 1981.

Destructive winds and droughts are a continuous erosion threat to the 397,000 farms and ranches in the area. The current program area encompasses 436 million acres. In addition, 39 counties have formally requested designation since May 1972 but have not been added by the Soil Conservation Service because the Great Plains conservation program funds have not been available to cover these applications. Many

other counties have informally indicated an interest in being designated for the program. The Soil Conservation Service has on hand more than 4,900 requests for Great Plains conservation program contracts.

The GPCP has been a low-budget, effective, and popular program.

The appropriation for GPCP for 1977 was \$21,639,000; \$22,073,000 for 1978; and \$18,288,000 for fiscal year 1979. Recent legislative actions indicate that the program will be funded near the \$18 million level again in fiscal year 1980.

In spite of substantial Federal assistance over the years through the Civilian Conservation Corps, ACP, the regular conservation operations programs of SCS, and the Great Plains conservation program, excess soil erosion by wind and water continues to afflict massive areas in the Great Plains. Wind erosion exceeds 5 tons per acre annually on 90 percent of all cotton land in the Plains States. Similarly, 60 percent of all land used to grow sorghum is eroding at rates of over 5 tons per year.

Forty-two percent of all soybean land in the Plains suffers excess wind erosion. The same holds for 34 percent of all corn land and 31 percent of all wheat land in the Plains States.

What is equally disturbing is that in the Great Plains 92 percent of all irrigated cotton land, 70 percent of all irrigated sorghum land, 67 percent of all irrigated soybeans, and 47 percent of all irrigated corn lands are suffering wind erosion rates of over 5 tons per year.

On top of the excess erosion by wind in the Great Plains, water erosion is also very much present. On land used to grow soybeans in the Plain States, for example, 46 percent of the total acreage experienced sheet and rill erosion in excess of 5 tons per acre annually in 1977. The same was true of 35 percent of the land used to grow sorghum, 22 percent of the cotton land, and over 11 percent of the land in wheat in the Plains area.

Tremendous strides toward the objective of helping to mitigate the hazards of farming and ranching in the Great Plains area have been made. Dust storms once plaguing the Great Plains have been greatly reduced.

The program has been effective in helping to stabilize farm and ranch units by assisting them through the periods of drought that are commonplace in the Great Plains.

Lending institutions are more inclined to make loans to ranchers practicing good range management and maintaining adequate feed reserves. The program has also provided direct job opportunities and income stability for conservation contractors and other conservation-related vendors, most of whom live in small, rural communities, as well as helping to stabilize the general economy in the Great Plains area.

There have been other benefits of the program which go beyond the original intent of conserving soil and stabilizing the agricultural economy of the Great Plains. The same conservation practices which hold the soil in place against the forces of wind and water erosion are also practicable means of reducing pollution from nonpoint sources.

The many miles of windbreaks and shelterbelts, the thousands of acres of crop residue management, miles of terraces, the pasture plant-

ing and the range management—all these good, sound conservation farming techniques established under Great Plains conservation contracts have been responsible for keeping many tons of sediment out of streams and other waters.

We have found that keeping sediment out of the water is a key to reducing other nonpoint sources of pollution, such as plant nutrients, herbicides, and other pesticides.

In the 469 designated counties, we estimate that 180 million acres have the potential for coming into the program. Nearly 56,000 contracts have been developed on 105 million acres, leaving 75 million acres still needed initial treatment. In addition, some of the acres previously in contracts are now eligible for additional treatment as a result of new ownership, land use conversion, and advanced technology.

About 31 million acres are in the 13,621 active GPCP contracts. There were 4,919 applications for contracts on hand at the end of fiscal year 1978 covering 14,791,000 acres. Only about 1,000 of these have been developed into contracts this fiscal year because of the level of appropriations.

During fiscal year 1978, the average obligation per contract was \$8,845, and the average size of the contract was 2,415 acres. Because of rising costs, the average contract in 1980 will approach \$10,000. Since the beginning of the program, more than \$246 million has been obligated on cost-share practices. This is 82 percent of the \$300 million total authorized for the program.

Comprehensive studies now being conducted in the Department of Agriculture may eventually show that a new approach to solving conservation problems in the Great Plains is needed. On the other hand, the conclusion may be that the targeted approach used in the Great Plains conservation program is a very effective means of solving critical problems.

That review is underway today under the Resources Conservation Act. But the point is that right now we do not have all the analysis and public input needed to draw conclusions about the best mix of soil conservation programs.

I will turn now to the provocative question: What new approaches are needed in order to achieve conservation of our soil, water, and related natural resources?

It is timely and appropriate that this subject be discussed because the Department of Agriculture is now conducting a major study of our land and water resources and programs for their conservation and protection.

This study is being carried out pursuant to the Soil and Water Resources Conservation Act of 1977—Public Law 95-192—commonly referred to as RCA. This bill resulted from the fine work of your committee.

The concern of the Department of Agriculture for our non-Federal natural resources was elevated to a special level in October 1978. In that month, Secretary Bergland created the Department's Resources Conservation Act Coordinating Committee to implement RCA.

The committee is chaired by my deputy, David G. Unger, and is composed of representatives from eight agencies and offices of the Department, as well as the President's Council on Environmental Quality and the Office of Management and Budget.

The Secretary placed responsibility for making decisions to implement the Resources Conservation Act in the hands of this committee. In this regard, the coordinating committee has undertaken to appraise the non-Federal soil, water, and related resources of the Nation in light of current and projected demands on them, and to develop a national conservation program that will guide the Department's future efforts in soil and water conservation. When the RCA appraisal and program are transmitted to the Congress by the President, they will be accompanied by a detailed statement of policy.

Some of you who are familiar with the Forest Service program, called the Forest and Rangeland Renewable Resources Planning Act recognize the similarity and the complementarity between that called the RPA and this called the RCA. Secretary Bergland will weave those two programs together to provide a policy statement by the President on soil, water, forestry, and rangelands, and a comprehensive program for all those resources in the near future.

Part I of the RCA appraisal is already out for review and comment in draft form. This is that document which has been provided to members of the committee, I believe, by the Soil Conservation Service. It is a data base. Part II will analyze that data base. The third document in the series will be the program.

Before addressing the matter of new approaches to conservation, I would like to say that the Department has not made a decision to abandon or to replace our existing conservation programs and institutional ties.

At the same time, we have not decided to retain them either. The information that we are gaining through the RCA suggests, however, that we need to take a very careful, serious, and objective look at anything that will increase the effectiveness of our soil and water conservation programs.

Our objective is to devise strategies and programs that are cost effective and that match workable solutions with conservation problems.

Because the development of alternative conservation strategies and programs under the RCA has not proceeded to the stage where detailed alternatives have been defined, I will have to limit my comments to a general description of what we are considering. I should note that we will have the program to you in April 1980.

The major conservation problems appear to be greater in some regions than others, which suggests that our programs should be targeted at these problem areas. By this I mean that we must not only target at problem regions and areas but also at specific acreage within regions and counties.

The old notion that we need to be prepared to respond to the conservation problems on every acre in every county appears to have been dispelled by the information gained in our appraisal of the resource base.

In another sense, targeting may also mean decisions to limit assistance to lands suffering severe conservation problems as a means of insuring that program resources are not used on land with minor or negligible problems while land with serious erosion problems goes unattended.

We are giving very serious attention to alternative forms of conservation incentives. This includes alternatives to provide upfront cost-sharing and technical assistance.

President Carter, in his recent environmental message, directed that this Department, in consultation with the Council on Environmental Quality, report "specific administrative and legislative recommendations to reduce soil erosion and to improve soil stewardship" by January 1981. Some of us suspect that the performance of our conservation programs could be improved dramatically if we simply changed the policies covering what we pay for.

On land subject to severe erosion, action to reduce erosion should be continuous. Assisting in the installation of a practice helps get that practice on the ground. However, it does not provide a continuous incentive to operate and maintain the practice.

Although operation and maintenance agreements have been used in an attempt to prevent the abandonment of conservation practices, experience suggests that these agreements are difficult and expensive to enforce, and thus not as effective as we would like.

To overcome this type of problem, one alternative which we are considering would shift incentives toward the results of conservation practices rather than their costs.

Under such an incentive system, a farmer could receive annual payments based upon the amount by which he actually reduced erosion on his land. This would tend to make erosion reduction competitive with crop production on erosive lands. Even in lean years when high prices cause farmers to cultivate erosive lands, they would still be provided with an incentive to minimize erosion.

In other times when prices are lower, the erosion reduction incentive payment could hasten the return of fragile lands to grass or other forms of suitable cover. In all cases, the size of a farmer's conservation check would be tied directly to the amount of soil he actually saves.

Yet another option entails the use of various forms of program cross-compliance. A basic form of cross-compliance would be to make implementation of a conservation farm plan a basic condition for assistance under production adjustment and other USDA programs. Another form of cross-compliance would be to offer "bonus benefits" to those who solve their conservation problems.

We are also considering what the proper mix for Federal, State, and local responsibility in conservation should be. This comes largely as a result of the substantial contributions of non-Federal units of government to soil and water conservation.

Another alternative being evaluated includes some forms of regulation. On this matter, however, I would like to point out that we are weighing all potential solutions to conservation problems against the problems themselves. Those solutions which are more severe than the problems they are supposed to solve, either in terms of loss of freedom, higher costs, or administrative problems, do not appear attractive in this context.

Mr. Chairman, we have identified 9 or 10 basic approaches to meeting our conservation goals of the future. These different approaches are being refined and will be included in the appraisal—part II, which will be available for review and comment about December. That is to

say, part I of the appraisal is a basic document containing data. Part II, available in a few months, will be more amenable to review and comment by the public. We will encourage that comment. We have not selected any one approach, but will be soliciting public preferences through an extensive public opinion poll, conducted by Lewis Harris Associates, in addition to review of the RCA documents.

Finally, Mr. Chairman, I will quickly address the efforts the Department has initiated to make the ACP program responsive to today's problems. The redirection of ACP was undertaken to meet criticism that too much money was being used for practices that were primarily production oriented. Since the change in emphasis in 1977, as Mr. Fitzgerald will describe, the program has undergone considerable change.

The major emphasis is now on using practices with long-term enduring conservation benefits. County committees use their allocations to work on the most pressing conservation needs. We must recognize that any conservation measure applied to land has the potential to provide a production benefit sooner or later.

Our emphasis is toward longer term benefits. Ray Fitzgerald, Administrator of ASCS, will be able to discuss this in greater detail.

We would be happy to discuss any of these items with you at this time. Mr. Fitzgerald is ready to testify when you see fit. We are at your disposal as to how you would like to proceed. Thank you.

Mr. JONES of Tennessee. Thank you very much, Dr. Cutler, for a very thorough statement.

Are there questions, Mr. English?

Mr. ENGLISH. Thank you, Mr. Chairman.

Mr. CUTLER. With regard to the situation that we face today—namely, one in which people who participated in the farm program last year and who stayed with the 20-percent set-aside at a time when we ended up with some very good prices, particularly in the area of wheat—I wonder if you could address this. I think most of the wheat is produced in that area that you outlined there.

Also, let us consider the fact that there will be no set-aside for next year. I know there is a lot of discussion in my part of the country about such practices as possibly double-cropping and breaking out some of the fragile land that you are talking about. The Federal Government, over the past few years, as you said in your statement, has spent literally hundreds of millions of dollars in trying to protect and restore much of this fragile land that, in fact, caused the Dust Bowl of the 1930's.

Are you alarmed at the type of situation we are facing next year with this type of discussion taking place? This might be an incentive for farmers to give serious thought to taking that kind of action.

Mr. CUTLER. Frankly, we are alarmed, Mr. English. Secretary Bergland and I are very concerned at the prospect of fence-to-fence tillage and breaking out the fragile lands in 1980. I am afraid that we are, to a degree, out of sync with real world needs in the sense that the timetable we are operating under to develop the Resources Conservation Act—based program does not help us in 1980.

We cannot expedite that analysis any more than we already have, I am afraid. Therefore, for the period immediately ahead we are disadvantaged by not having our recommendations ready for you.

The Congress appears to be ready to appropriate the \$18 million level for the Great Plains conservation program for fiscal year 1980, so that will be continued, together with the ACP program. Therefore, we will be able to continue the cost-sharing programs that we have had available in the recent past, but any new initiatives to be taken to increase Federal assistance to farmers to address the potential of alarming soil and erosion problems associated with breaking out these grasslands and other marginal lands will have to await this analysis. To do anything else would result in a premature response.

Mr. ENGLISH. Are we not, in fact, making a situation over the next 12 months? They are planting wheat in my county right now. The rest of the Great Plains area has farmers who are making plans.

As I said, it is very wide spread, that is, the discussions of ways in which they are going to be able to use—and I use that word advisedly—but basically to “use” the situation as it now exists. It is a wide open shooting match. Anything goes.

As I said, they are thinking about double-cropping. If nothing else, they will collect the disaster payments. That is what they are looking at. There are all types of conniving—and again, I use that word advisedly. This is because of the situation we have.

Therefore, it appears to be that what we have, in effect, is two Federal programs running contrary. Both are administered by USDA with the Great Plains program and the conservation work going in one direction. Then we have next year’s program, that is, the farm program, which is going completely in the other direction.

It appears to be that there is going to be a tremendous amount of waste in Federal dollars which has been invested in the conservation work over the years. I do not think there is any question but that the members of this committee strongly support the efforts that have taken place in the area of conservation. I am not even mentioning the potential that we would have for just an enormous crop. However, I am quite concerned about this. I am alarmed about it. I am encouraged, however, to hear that there is some discussion at USDA about this.

Mr. CUTLER. There is more than just discussion. We have completed, within the Department, the preparation of the 1981 budget, which is still subject to OMB review and the Presidential review. Of course, it will not be made public until next year. Response to these kinds of concerns have been built into our proposed 1981 budget.

Beyond that, the administration’s crop insurance legislation is designed to address this concern in the sense that the premiums paid by the farmers who purchase crop insurance will reflect the risk associated with the practice and the crop that they plan to proceed with. The premium, of course, will be higher in the high-risk situation.

Mr. ENGLISH. That will not be in effect for next year, though?

Mr. CUTLER. That is right.

Mr. ENGLISH. Next year is the year that we are looking at. That is where the damage is going to be done. If we happen to have a drought—and goodness knows we have had some pretty good years out in that part of the country—then we may be in trouble.

With those types of practices, then it looks to me like you will lose 10 years, at least, in the fight that you have had in restoring those lands. It appears to me it would be devastating to the program.

Would you feel that from a conservation standpoint that it would be a strong step if we could at least hold farmers to the normal crop acreage to try to bring about some kind of action in which farmers for next year would at least hold within the normal crop acreage? Could you speak on that?

Mr. CUTLER. I cannot really speak to that. I am very concerned, as breaking out of the grasslands that had been put into permanent cover in order to alleviate the problems of previous decades.

As you say, we are about to lose millions of dollars of federally assisted conservation practices in addition to irreplaceable soil resources.

I am not sure the burden of responding to that crisis should be placed entirely at the feet of Federal agencies. I hope that the local, State, and national agricultural associations, farm organizations, and conservation districts will work with their members to bring to their attention that after all it is their long-range livelihood that is at stake.

While the Federal Government, through its extension and educational programs, its technological assistance and financial assistance can provide a degree of tilting of the scales toward encouraging conservation practices, after all, it is the farmers of America who have said, and rightly so, that they are the Nation's original and No. 1 conservationists. They have an opportunity to show us in 1980.

Mr. ENGLISH. Let me interrupt you there. You have been around and you have observed what takes place. You know realistically what is going to happen next year. You know good and well that while we can sit here and discuss what farmers and farm organizations ought to do, but you know very well that the incentive for next year, by the program laid out by the Federal Government is to do exactly the opposite.

That throws it wide open to plant everything you set in the ground and go after it. That will tear the program all to pieces.

Mr. Chairman, I thank you very much.

Mr. JONES of Tennessee. Thank you, Mr. English.

Dr. Cutler, I will not take the time to ask you any questions. I will urge you to do one thing which I did not see that you did when you moved to the new ideas and to the new programs that you folks are looking at.

As I go over the country, I see this. We have been holding hearings with regard to soil conservation. We have the problem of erosion control, of course. We know how serious it is. This is not only in the Great Plains States, but in places where I live and other places. It is much more serious than it is even in some of the Great Plains States.

I hope you people take the initiative and have the nerve to take a look at the possibility of taking some form of action or suggestion toward a taxing program that would be applicable to use as an incentive to practice good soil conservation practices.

Do you understand what I am saying?

Mr. CUTLER. Yes, I understand, Mr. Chairman. That is being considered.

Mr. JONES of Tennessee. I do not believe you brought that out here today. I think I read that in some of the releases that have been put

out. However, I do believe that the time is fast approaching with the massive amount of land that is being broken out annually, the row crops that we are making today, and with the good prices, we are going to have to do something.

At the same time, we are necessarily going to have to do something to control this natural runoff that we are having. In my own particular congressional district—and that is why I have the Tennessee Valley Authority's attention—we are losing from 40 to 50 tons of topsoil per year. It is because we have moved from a pastureland type program to a row crop program.

I cannot argue with the farmers because they are doing well. When you can do as well in soybeans, cotton, and corn and the row crops as they do today, I cannot argue with them. At the same time I think there is a challenge there to see to it that we control this land for our future generations.

I applaud you for what you have done, but I hope that you will cause us, or at least encourage members of this subcommittee, as well as the Members of Congress to go a little farther and maybe put some sort of a tax incentive, for example, on the people for better soil conservation practices.

Mr. CUTLER. Mr. Chairman, I appreciate that suggestion. We will follow through on that.

I would like to bring to the chairman's and the committee's attention our feeling that the year 1980 will be a very exciting and productive year for the Soil Conservation Service.

As you may know, as of tomorrow, that agency will have a new Administrator, Norman Berg. Mr. Berg has been the agency's Associate Administrator for a decade. Together with his new leadership and the results of the Soil and Water Resources Conservation Act appraisal and program, and with Secretary Bergland's strong interest in addressing the problems that Mr. English has brought to our attention so dramatically this morning, I am sure that it will be a landmark year in the Soil Conservation Service with respect to new initiative designed to target on the most important soil and water conservation programs in this Nation. When we bring you our 1981 budget and our program initiatives next year, they are going to be addressed toward meeting these challenges.

Mr. JONES of Tennessee. Very fine. I appreciate your saying that. Are there any other questions?

We thank you for your testimony.

[The material referred to on p. 10 follows:]



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NATIONAL RESOURCE INVENTORIES

What: This paper highlights some of the new natural resource data and results from the first phase of the National Resource Inventories (SCS-NRI).

Why: SCS began the inventories in March 1977, in order to provide current resource data to:

- Respond to findings of the USDA Task Force on Adequacy of Conservation Systems on Cropland.
- Answer Senate Committee on Agriculture, Nutrition and Forestry requests for information about program needs and progress.
- Meet recommendations of the task force on "Future Directions of SCS."
- Answer General Accounting Office questions related to an audit.
- Update 0-year-old estimates of conservation needs and soil erosion.
- Aid in appraisal of resource conditions and trends that would be called for in a Soil and Water Resources Conservation Act (RCA), which was enacted in fall 1977.

Where: The inventories were designed to provide statistical data for nonfederal lands in each State (except Alaska) in the U.S. and in the Caribbean Area. They used about one-third of the randomly selected sample areas that were used in the 1967 national inventory of soil and water conservation needs (CNI). Data were collected by SCS field employees at 70,000 primary sample units and more than 200,000 sample points.

When: Phase 1 of the inventories is completed. It includes data on land capability classes (soil quality); land use and use of small water areas; conservation needs; flood-prone areas; wetland types 3 to 20; sheet and rill erosion; wind erosion in the 10 Great Plains States; potential for new cropland; irrigation; and prime farmlands.

Phase 2 of the inventories will be completed in 1979. It will include data on gully, streambank, roadside, and construction-site erosion.

Phase 3, the final one, will be completed in 1980. It will include using new data in a computer model to estimate sediment delivery for major river basins (hydrologic units).

Who: SCS-NRI data will be used by SCS State offices for long-range soil and water conservation programming and planning. These data and other current information also are being used in the first RCA appraisal and program now underway. Decisionmakers in other agencies as well as private firms, groups and organizations that need current natural resource information will find the data useful for selecting resource-oriented research, activities, and evaluations.



THE FINDINGS:

Soil Quality

Rural land available for agricultural, forestry and other uses declined by nearly 37 million acres in the 1967-to-1977 period. Yet the percentage of good, fair, and poor land remained about the same. That is, 44 percent of the rural land (613 million acres) is in land capability classes I-III, 13 percent is in class IV (189 million acres), and 43 percent is in classes V-VIII (599 million acres).

Of the total rural nonfederal land, 414 million acres occur on level to nearly level topography and over 1 billion acres occur on gentle to very steep slopes. At least 269 million acres have a natural wetness condition, while nearly 402 million acres are droughty or lack sufficient water to grow agricultural or forestry crops. Some lands are sloping and wet, others may be level and droughty. Many of these conditions, singly or in combination, limit the use of land.

Land Use

Cropland: There is a continuing decline in the acreage of nonfederal land used for growing crops in the U.S. During the 10-year period from 1967 to 1977, acres in cropland decreased by 18 million, from 431 million to 413 million. This represents a decrease of 1.8 million acres a year. The rate is considerably less than the decline of the 1950's, but about the same as the decline of the 1960's. The 1977 SCS-NRI data show that land users retained the better land for cropland. Since 1950, there has been a 3-percent increase in the use of good land (capability classes I-III) for cropland and a 4-percent decrease in cropping of poor land. Use of fair (marginal) lands increased by 1 percent.

Grassland and forest land: Land available for grazing has increased greatly; it accounted for 541 million acres in 1977. Now, over half of the nonfederal agricultural land is used for native pasture, pastureland and rangeland. The SCS-NRI data show an overall decline in nonfederal forest land. In 1967, there were 444 million acres of nonfederal forest land. The total decreased to 370 million acres in 1977, a change of 74 million acres.

Urban and built-up: The 1977 data confirmed previous estimates that homes, factories, roads and other similar uses are absorbing rural land at a rapid pace. Some 90 million acres now are in these uses or committed to these uses. Another 4 million acres are in very small built-up areas and are considered part of the other rural land uses. Nearly 95 percent of the rural land shifted from agricultural, forestry and other uses is related to urban development. The remaining 5 percent of land changed to small water areas. The data suggest that land is converted to these irreversible uses at a rate of about 1 million acres a year. About 10 percent of the land converted to small water areas and 30 percent of the urban and built-up area come from land formerly used for cropland.

Use of Small Water Areas

Small water areas increased by more than 1 million acres in the 1967-to-1977 period. SCS-NRI data show that the total 9 million acres of small water is evenly divided between small streams (less than 1/8 mile wide) and water bodies (less than 40 acres). About 4 million acres of small water are used primarily for recreation, including fish and wildlife. Nearly 3 million acres are used for livestock water supply.

Conservation Needs

Some 892 million acres of agricultural and forest land needed conservation treatment in 1977. The total did not change significantly over the 10-year period but the kind of treatment needed--and the kinds of land requiring treatment--did change distinctly. In 1967, 64 percent (272 million acres) of the cropland needed treatment; 58 percent (241 million acres) required treatment in 1977; a decrease of 6 percent for cropland. Total acres in pastureland and rangeland increased, as did the treatment needs. In 1967, 71 percent (346 million acres) needed treatment; this increased to 75 percent (404 million acres) in 1977. Surprisingly, the percentage of forest land needing treatment increased from 62 percent to 67 percent in the 10-year period while the acreage of forest land decreased.

Floodprone Areas

SCS-NRI data specifically identified the acreage of floodprone areas and furnished valuable new information on the use and quality of this fragile resource. There are 175 million acres of floodprone areas in the nonfederal land area of the U.S. (excluding Alaska). About 32 percent (54 million acres) is pastureland, native pasture and rangeland. Another 30 percent (52 million acres) is forest land. Another 27 percent (48 million acres) is cropland. The remaining 11 percent is in other land uses. About 46 percent of the floodprone land is of good quality (capability classes I-III) and 54 percent is fair to poor (classes IV-VIII).

Wetlands

New data are available on the use, composition, and potential of wet soils and wetland types 3 to 20. There are 42 million acres of wetlands in the U.S., of which 40 million acres (97 percent) are in noncropland uses. Forested wetlands account for 50 percent of the acreage. None of the wetlands has potential or is available for conversion to cropland. By contrast, the U.S. (except Alaska) has 269 million acres of wet soil on nonfederal lands. Nearly 105 million of these acres are now cropped; of the other 164 million, only 31 million have potential for conversion to new cropland.

Sheet and Rill Erosion

Estimated average annual sheet and rill erosion for all cropland is 4.8 tons per acre. Cropland erosion rates range from less than 1 ton in some States to more than 41 tons per acre for the Caribbean Area. Estimates in 1967 showed annual cropland erosion rates of 5.9 tons per acre and a total of 2.6 billion tons eroded. In 1977, the amount was down to 2 billion tons annually.

This bright picture is dimmed by the fact that 22 States, mainly in the central and eastern part of the U.S. and the Caribbean Area, have average annual erosion rates for cropland of 4 tons or more per acre. Seven States and the Caribbean Area have more than 8 tons. Sloping croplands are eroding at to nearly 4 times their permissible rates. Some nearly level wet soils in the Delta region are eroding at above permissible rates. Pastureland and native pasture in 11 States and the Caribbean Area have average annual erosion rates of more than 4 tons per acre. Rangeland erosion rates in 5 States and the Caribbean Area are over 4 tons per acre. Except for 3 States and the Caribbean Area, erosion rates for forest land are not high; but grazed forest land is eroding three times as much as nongrazed forest land.

Wind Erosion in the Great Plains

Average annual soil loss on cropland in the 10 Great Plains States from erosion by wind is 5.3 tons per acre. Annual rates for each State range from 1.3 tons per acre to 14.9 tons per acre. Three of the States have rates above 8 tons per acre. Annual erosion by wind on rangeland varies from none in two Great Plains States to 6.2 tons per acre for one State.

Potential for New Cropland

A 1975 SCS inventory--that estimated how much pastureland, rangeland, forest land, and land in other uses could be converted to cropland--created much interest and debate. New data were collected for the 1977 SCS-NRI based on 1976 prices and costs. Although the total cropland acreage with high or medium potential for conversion was estimated at 35 million acres in 1977 compared to 111 million acres in 1975, the acreage with high potential was down by nearly 50 percent. The acreage of land with medium potential for conversion was up to 95 million acres, suggesting that (1) conversion problems were thought to be more complex in 1977 than in 1975 or (2) prices received versus the cost to produce a crop were such that more land with conservation problems might be brought into production in 1977.

Irrigated Land

The acreage of irrigated land has increased sharply. In 1967, 47 million acres of cropland and pasture were irrigated; in 1977, the total was 62 million acres. Irrigation is no longer confined to the dry areas of the west--SCS-NRI data show that although only 2 States now irrigate some lands, Three States irrigate more than 5 million acres each and 14 States irrigate 1 to 5 million acres each. Most of the land (63 percent) is irrigated by use of gravity systems. Another 32 percent is irrigated by use of pressure systems. The remaining 5 percent uses a combination of both.

Prime Farmlands

The 1975 estimates showed 384 million acres of prime farmlands in the U.S. and Caribbean Area; the 1977 SCS-NRI data showed 346 million acres. The latter figure is a more accurate measure of these important farmlands. Three States have more than 20 million acres each of prime farmland, 4 States have 15 to 20 million acres each, 7 States have 10 to 5 million acres each, and 9 States have 5 to 10 million acres each. Some 67 percent of the prime farmland already is being used for cropland. Only 116 million acres of prime farmland are in other uses. Of these, 1977 SCS-NRI data showed that only about 45 (52 million acres) could practicably be shifted to cropland production.

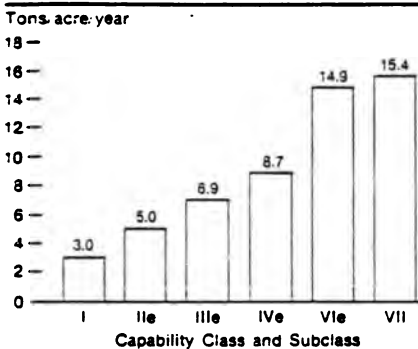
Conservation Treatment Needs in 1967 and 1977—National Summary

	Cropland		Pastureland and Rangeland		Forestland	
	Acres (Millions)	Percent	Acres (Millions)	Percent	Acres (Millions)	Percent
1967						
Treatment Needed	272	64%	348	71%	271	62%
Treatment Not Needed	159	36%	161	29%	174	38%
1977						
Treatment Needed	241	58%	404	75%	247	67%
Treatment Not Needed	172	42%	137	25%	123	33%

Use of Flood Plains in 1977, National Summary of Non Federal Land

Land Use	Acres (millions)	Percent
Cropland	48.2	27
Pastureland and Native Pasture	19.8	11
Rangeland	34.7	21
Forest Land	51.6	30
Other Land	20.7	11
Total	175.0	100

Estimated Average Annual Sheet and Rill Erosion on Cropland in the United States in 1977, by Capability Class



Use of Prime Farmland in 1977

Land Use	Acres (millions)	Percent
Cropland	231	67
Native Pasture and Pastureland	39	11
Rangeland	23	7
Forest Land	42	12
Other Land	11	3
Total	346	100

Soil Quality — Non Federal Rural Land (Excluding Alaska)

Condition*	Million Acres	Percent
Level	414	29
Sloping	1,021	71
Wet	269	19
Droughty	402	29
Flood Prone	179	12

*Some soils are sloping but wet, level but droughty, etc.

Trends in Use of Nonfederal Land for Cropland by Capability Classes (percent)

Use of Cropland by Capability Class	Year			
	1950	1958	1967	1977
I-III	82%	83%	84%	85%
IV	10%	11%	11%	11%
V-VIII	8%	6%	5%	4%
Total	100%	100%	100%	100%

National Summary of Trends in Use of Non Federal Land (Millions of Acres)

Land Use	1958	1967*	1977
Agricultural Land:			
Cropland	448	431	413
Pastureland, Native Pasture, and Rangeland	485	507	541
Forest Land	453	444	370
Urban and Built-Up	51	61	90
Small Water	7	7	9
Other Land Uses	60	50	77
Total	1,504	1,500	1,500

*Unadjusted

Mr. JONES of Tennessee. Our next witness is an old friend of ours who has been around for a while. We are glad to have him back this morning.

Mr. Ray Fitzgerald is Administrator of the Agricultural Stabilization and Conservation Service at the USDA.

We thank you for being here. We are delighted that you have come.

STATEMENT OF RAY V. FITZGERALD, ADMINISTRATOR, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE, U.S. DEPARTMENT OF AGRICULTURE; ACCOMPANIED BY ALAN DURICK, DIRECTOR, CONSERVATION AND ENVIRONMENTAL PROTECTION DIVISION, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE

Mr. FITZGERALD. Thank you, Mr. Chairman.

Let me introduce Alan Durick, the Director of the Conservation and Environmental Protection Division, ASCS.

Mr. Chairman, I am glad for this opportunity to talk about the agricultural conservation program. These are exciting days for the oldest nationwide conservation program, now in its 43d year.

This is the time of year when the program for 1980 is being developed. Community committees all across the Nation are meeting to make recommendations. We are in a schedule of meetings with all State committees and 1980 ACP development. In each county the county ASC committee will call together the ACP development groups which utilizes the expertise and interests of governmental and private individuals. From the nationwide effort will come the approved program for 1980.

The guidance of the Congress through authorizing legislation and the appropriations act will play an important part in the makeup of that final list of approved practices.

I would not want you to think that only my agency, ASCS, is involved in this effort. At the county, State, and national levels we get much valuable assistance from the Soil Conservation Service, Forest Service, Farmers Home Administration, and the research and educational arms of the Science and Education Administration. All of these are in USDA. The Environmental Protection Agency joins in the effort. Some of our best input comes from the Soil Conservation Districts and from State water quality and forestry officials.

What we are trying to do is to decide at the local level what the most pressing conservation needs are and to use the information gained as the basis for establishing conservation measures to meet those needs. We want to get the greatest possible amount of conservation from each dollar that is spent.

In the past 2 years ACP has been redirected. There was considerable criticism only a few years back that too much ACP money was going for practices that are primarily production oriented.

Soon after he took office, the President instructed Secretary Bergland to move the ACP emphasis toward long-term enduring practices. The Congress wrote similar language in the Food and Agriculture Act of 1977.

We have changed the direction but not without opposition. Our first efforts were to persuade State and county committees that a new direction was needed.

You helped persuade State committees yourself, Mr. Chairman. Last year you spoke to the State committees at a national conference. I well remember how you spoke to them as a former State committee chairman and expressed your disappointment in their failure to take advantage of the opportunity to forcefully attack critical conservation problems.

I believe many committeemen took your advice to heart because in the past year opposition to redirection in the committee system has virtually melted away. In this year's development meetings, we are hearing much less lament about the prohibition of such practices as tile drainage.

We are pleased with the progress made thus far and we intend to continue.

Another exciting development in ACP had its genesis in the first days of the new administration. The President asked the Secretary to conduct an evaluation of ACP.

A USDA team from the Economics, Statistics and Cooperatives Service, Science and Education Administration, Soil Conservation Service, the Office of Budget, Planning and Evaluation and ASCS developed a plan of evaluation.

The plan literally went to the grassroots. A valid sample was drawn from 171 counties. All ACP practices installed between 1975 and 1978 were checked. The Soil Conservation Service and Forest Service gave us technical data for the land treated by each of those practices.

The data collected from each farm involved was put into the Universal Soil Loss Prediction Equation. We have some preliminary results—enough that county committees can begin to use the study in making practice approvals next year.

I would caution at this point, Mr. Chairman, that there are some limits to this study. The soil loss equation predicts soil loss from water erosion. It does not deal with wind erosion. And the mass of data obtained after the computer did its run is taking a great deal of human evaluation.

But even with those limitations, we learned, for example, that the practice called Establishment of Vegetative Cover is, on average, used on land that has an average annual soil loss of 10 tons per acre.

The practice reduces the loss to about 1.5 tons at a Government cost of about 43 cents a ton. And that terraces are generally constructed on land with an average loss of 15 tons per acre with a resulting reduction to about 6.5 tons per acre per year. The Government's share of cost averages about 30 cents per ton.

As I said earlier, this evaluation is not complete but the tools obtained so far will be used in 1980 by county committees.

We have reinstituted another conservation tool that we used in the 1960's when you were a State committeeman, Mr. Chairman, and I was a deputy administrator. I refer to specific projects where funds are directed to a specific locality to treat a specific conservation problem. Our emphasis has been on water quality problems.

In 1978 we allocated \$1.5 million to seven projects. In 1979 we continued those and added 21 more that were recommended by State and

county committees. In addition, we are funding the Colorado River salinity project and the Tama County, Iowa, joint project with EPA. The 1979 initiatives at the national level amount to slightly over \$6 million.

In addition, in 1979 we required the State committees to reserve a total of \$10 million to fund special projects they would select from those recommended by counties. We did not require any emphasis on water quality problems, but the States report that about \$6.4 million of their reserves were allocated to projects that have substantial benefit to water quality.

We have used small amounts of funds for other types of special projects. We funded 10 projects in 1978 and 12 more in 1979 which relate to the Department's small farmer assistance. We also funded a project in New England States to improve woodlands and provide fuel.

Mr. Chairman, I am excited about what ACP has been doing and what might be one for the future. I will be glad to answer any questions the subcommittee might have.

Thank you.

Mr. JONES of Tennessee. Thank you very much, Mr. Fitzgerald. Are there questions? Mr. English?

Mr. ENGLISH. Thank you, Mr. Chairman.

Mr. Fitzgerald, you heard the discussion I just had with Dr. Culter and the concerns that I expressed.

Do you share Dr. Cutler's fears with regard to that particular Great Plains area and the types of reports that evidentially USDA is getting, as well as the Members of Congress, from that part of the country, as to some of the farming practices that may take place next year and the effects that would have on conservation?

Mr. FITZGERALD. Yes, sir. We have varied reports from different parts of the country, not only the Great Plains, but the Northwest as well. Especially in dryland wheat areas we have concerns expressed. There are some people who are planning to, or have broken up, land.

There are also people who will crop what has been summer fallow land and, therefore, perhaps add to the conservation problem.

As you know, we do not have authority in the law for the normal crop acreage when there is no set-aside. I personally am at a little bit of a loss as to what we can do to stop that problem to the extent that it exists.

However, it could become—not next year but the year after—a very serious problem.

Mr. ENGLISH. In your opinion, do you feel that the problem is severe enough, or at least the potential for disaster is severe enough that we need to look at this? This Nation has made a considerable investment in conservation programs, not to speak of the potential loss of valuable resources, of course. Do you think it is severe enough that this subcommittee should immediately consider taking some type of action to deal with this problem next year in giving you the authority to deal with it if it should happen again the following year?

Mr. FITZGERALD. I am not sure that the administration has made up its mind as yet as to what to suggest, so I am a little hesitant to respond.

Mr. ENGLISH. Let me put it this way. You, in your position, would not oppose such action; would you?

Mr. FITZGERALD. No. It seems to me that everyone recognizes there is probably a need for some type of authority which would, at least, mitigate the problem. Just exactly what that should be, I am not too sure.

Mr. ENGLISH. Do you believe that, given the fact that we are planting in many areas of the country, that unless some action is taken within the next 30 days that it simply is going to be academic from that point on?

Mr. FITZGERALD. Yes, I agree.

Mr. ENGLISH. Thank you. Do you have any projections with regard to the Office of Management and Budget on wheat, for example and as to what the exposure is to the Federal Government with regard to the program as it now exists?

Mr. FITZGERALD. Do I have any objections?

Mr. ENGLISH. No, estimates.

Mr. FITZGERALD. No, I do not, but I could get it for you. I do not know what the exposure is. I cannot tell you off the top of my head.

Mr. ENGLISH. Has there been objection from OMB to the situation as it exists now? Has concern been expressed?

Mr. FITZGERALD. Are you talking about deficiency payments and exposure, for example?

Mr. ENGLISH. Right.

Mr. FITZGERALD. I am not aware of objections. I am not always involved in all those discussions.

Mr. ENGLISH. Do you know of any plans that the Department has in making your recommendations within the next 30 days?

Mr. FITZGERALD. On target payments?

Mr. ENGLISH. Yes, with regard to the normal crop legislation dealing with the 1980 crop on the normal crop acreages versus target prices.

Mr. FITZGERALD. I am not——

Mr. ENGLISH. Would you agree that in order for farmers to receive enough incentive to hold normal crop acreage that there definitely would have to be a rather substantial increase in target prices?

Mr. FITZGERALD. It would appear from the figures with which I am familiar that that would be helpful; yes.

Mr. ENGLISH. Thank you very much, Mr. Chairman.

Mr. JONES of Tennessee. Thank you.

Mr. Fitzgerald, I want to commend your Department for the redirection it has been taking down there in some of these special projects.

As I get over the country, I see this. I am sure Mr. English seen these. Other members of the subcommittee, I am sure, have seen these. They are lending a lot of assistance and challenge to many of our farm people. I am very happy to see ACP's new direction being taken.

Mr. FITZGERALD. Thank you very much, Mr. Chairman.

Mr. JONES of Tennessee. I look forward to seeing you later this week. We want to thank you for your testimony.

Mr. FITZGERALD. Thank you.

Mr. JONES of Tennessee. Our next witness is Mr. Jim Dickinson, vice chairman, Private Lands and Water Usage Committee of the National Cattlemen's Association.

Mr. Dickinson, before you begin, there is a good possibility that we might hear another group of witnesses before we leave this morning. I understand that the National Association of Soil Conservation Districts may have a travel problem. I wonder if there is someone here that can tell us about that.

All right, then, we will give Mr. Dickinson his time. Then we will hear the panel before we adjourn for lunch.

STATEMENT OF JAMES A. DICKINSON, VICE CHAIRMAN, PRIVATE LANDS AND WATER USAGE COMMITTEE, NATIONAL CATTLEMEN'S ASSOCIATION

Mr. DICKINSON. Thank you, Mr. Chairman.

My name is James A. Dickinson from Omaha, Nebr. I live on a farm and actively operate that farm.

I am a farmer and a cattle feeder currently serving as vice chairman of the Private Lands and Water Usage Committee of the National Cattlemen's Association.

This particular committee of NCA has the responsibility for furthering the policy development objectives of the association, of which the subject here today is a part.

NCA is the national spokesman for all segments of the Nation's beef cattle industry—including cattle breeders, producers, and feeders. The NCA represents approximately 280,000 professional cattlemen throughout the country. Membership includes individual members as well as 51 affiliated State cattle associations and 15 affiliated national breed organizations.

Last January the association's membership meeting in convention at Kansas City, Kans., adopted the association's official policy regarding the Great Plains conservation program.

Following is the text of NCA's policy resolution:

Whereas the Great Plains conservation program administered by the Soil Conservation Service through the Soil and Water Conservation Districts is scheduled to terminate December 31, 1981; and

Whereas the program provides cost-share assistance which has enabled ranchers and farmers of the Plains States to implement a long-term comprehensive coordinated conservation plan for their land which conserves soil and water resources and enhances productive capacity for present and future generations;

Whereas the Great Plains contracts already in effect have been so successful in accomplishing conservation objectives, with concomitant increases in foreign production for livestock and wildlife of up to 40 percent, that there is a tremendous backlog of qualified prospective applicants because of inadequate funding; and

Whereas lands conserved by good management are subject to wind and water erosion damage from adjacent unprotected lands which are eligible for Great Plains conservation program assistance: Therefore, be it

Resolved, That the National Cattlemen's Association supports legislation that would continue the Great Plains conservation program until December 13, 1986.

The committee which you chair has a long history of having passed constructive conservation legislation, many of the results of which can be measured through the accomplishments of the Great Plains conservation program.

Keeping with the purposes for which these hearings were called, NCA would like to recommend the following key five-point program to be included in new legislation:

One, extend the Great Plains conservation program through September 30, 1986, or through September 30, 1991—a 5-year up to a 10-year extension. Of course, that would propose to make it permanent. I am sure we would approve that type of legislation.

Two, remove the \$300 million total program cost-share limit and the \$25 million annual cost-share limit.

Three, authorize the program for the 10 Great Plains States with the Secretary of Agriculture having the option to expand the program to other States that experience extended drought or other natural phenomena which have the potential of accelerating wind or water erosion. I think, Mr. Chairman, that you have mentioned that you have some problems in your own State, which is not in the Great Plains area.

Four, continue the present financial and technical leadership and administration of the program by the Soil Conservation Service.

Five, provisions which would provide for GPCP—funded demonstration projects of applied soil and water conservation.

NCA believes that the GPC program is a model for sound conservation of land and water resources in this Nation. Expansion of the program, coupled with the innovative incentive techniques such as are employed in programs used on the national grasslands would merit this committee's serious consideration.

In support of NCA's recommendation for the five-point program outlined above, we offer the following background information.

As for the background of GPCP, the Great Plains is a vast area of land that extends from the Rocky Mountains to the gently rolling prairies of mid-America, and reaches from Canada to the Rio Grande.

The people of the United States and much of the world rely heavily upon the Great Plains States for red meat, fiber, and food crops. According to the 1978 agricultural statistics, USDA, about 47 percent of the beef cattle and 55 percent of the sheep produced in the United States are produced in the Great Plains. This area also produces over 60 percent of the Nation's wheat crop and over 40 percent of our cotton.

The Great Plains is an area of unstable climate characterized by bitter cold, searing heat, drought, and erosive winds. Periodically, the damaging effects of these natural phenomena have created many hardships and placed financial burdens upon individuals, families, communities, and the Nation.

Over the years numerous studies have been made and programs developed in an attempt to reduce erosion, stabilize agriculture and improve the economy of the Great Plains. The one program with a continuing track record of success is the Great Plains conservation program which Congress created in 1956.

The main difference between this program and other conservation programs available to agricultural producers are the contractual features and the cost-sharing aspects of it. The contract is between the producer and the Secretary of Agriculture. The contract must run for at least 3 years and cannot exceed 10 years. It is based upon a complete conservation plan developed by the producer with the technical assistance of the Soil Conservation Service. Like other SCS assistance, this help is made available through a local conservation district, a legal subdivision of State Government.

The plan must set forth the entire conservation program to be applied. Minimum standards must be met and proven specifications followed for all conservation practices and measures applied. The total Federal cost-share assistance cannot exceed \$25,000 for the life of the contract.

I would now like to turn to coordination.

GPCP is coordinated with other Federal, State, and local agencies through established State and county GPCP committees. Conservation districts review all contracts, set up planning priorities, and serve on county GPCP committees.

As for the purpose, the GPCP gives assistance under long term contracts to land users in 469 designated counties of 10 Great Plains States. Its purpose is to provide needed protection and improvement of soil, water, land, plant, and wildlife resources of the Plains area. Installing complete conservation treatment and management systems on farms and ranches helps stabilize individual enterprises and, consequently, the local economy.

As for accomplishments, GPCP producers reduce soil erosion by over 240 million tons annually. Conservation treatment is completed on about 4 million acres annually.

A partial list of conservation treatment applied by GPCP farmers and ranchers to date include the establishment of nearly 5 million acres of permanent grasslands; 56,000 acres in tree plantations and windbreak plantings; water distribution systems for livestock and wildlife include over 10,500 miles of pipelines and over 40,000 earthen structures. About 1.2 million acres of stripcropping have been applied on cropland.

The Great Plains conservation program has protected or improved soil, water, plant, and wildlife resources through the willingness of agricultural producers to join with the Federal Government in making long-term investments in carefully planned and applied conservation contracts.

Erosion and sediment have thus been reduced on over 100 million acres, agriculture-related pollution of water and air has been curbed and local economies dependent upon the productivity of land and water resources have been kept stable. All Americans have been the beneficiaries of this conservation work.

I turn now to the job remaining.

Conservation is the wise use and management of resources. The job of conserving our Nation's natural resources must, of necessity, remain a perpetual task of America's land users and landowners. About half of the Great Plains acreage needing conservation work—90 million acres—have been treated to date.

The Soil Conservation Service has over 5,000 applications on hand for GPCP contracts which cover nearly 15 million acres. These landowners are, in effect, waiting in line to join their neighbors in protecting our soil and water and wildlife resources through the implementation of a complete conservation plan with GPCP help. The conservation job, moreover, is not restricted to the Great Plains area. Other States also suffer from the destruction of wind and water erosion accelerated by natural catastrophies.

Excerpts from this 1977 news release illustrate why the Secretary of Agriculture needs the authority to expand GPCP to other areas when the need arises:

July 31, 1977—from the Pacific Northwest, across the Plains and down to the panhandle of Florida, America is drying up. Streams and rivers are at record low levels. Precipitation is far below normal. Pastureland is shriveled. Cattle are going thirsty. Water use is being rationed.

The Weather Service's Palmer Index, designed to evaluate the scope, severity, and frequency of long periods of abnormally wet or dry weather, shows that parts of 41 of 48 contiguous States are affected by drought conditions.

In a South Dakota study conducted during the drought of 1977, 38 percent more acres of cropland experienced moderate to severe wind erosion damage on land not under GPCP contract than those acres with contracts. And ranchers like Russ Thompson of Lusk, Wyo., were able to avoid buying hay for livestock feed and hauling water due to the conservation program installed under this GPCP contract.

GPCP is a voluntary program that has and is paying dividends for the perpetuation of America's renewable natural resources. Continued public and private investment in this conservation effort is needed for sustained productive use of our land and water.

Your support for legislation to extend and expand the GPCP will be vital to assuring American consumers a stake in meeting this Nation's food and fiber demands through a proven energy-efficient conservation program.

I was interested in Mr. English's knowledge of what the agriculture programs are about. I am pleased to hear that.

Thank you.

Mr. JONES of Tennessee. Thank you for your testimony. Mr. English?

Mr. ENGLISH. Thank you, Mr. Chairman.

Mr. Dickinson, if you have any observations on the exchange and discussion that previously took place between the witness and me, I would be interested in your views. I would like to hear about your part of the country.

Mr. DICKINSON. I would preface my remarks by saying I would be speaking for myself and not for the association. I was interested in some of your questions and comments.

Where I live particularly most of the land that I operate and rent from others is tillable. Our NCA is almost in total. The problem is not there. I am sure that the areas that you referenced have problems.

I was visiting with our county executive director a couple of years ago. They were wondering whether it will be mandated that people will stay with it if there are no other restrictions.

As an individual, I would agree that when we expect something from Government, although we hate regulations, that we have to give something in return. That might be reasonable.

Mr. ENGLISH. I thank you for those comments. Thank you, Mr. Chairman.

Mr. JONES of Tennessee. Thank you, Mr. English.

Let me say without reservation, Mr. Dickinson, that I am in 100 percent agreement with you. I would love to see the program extended

for a longer period of time. We have some problems here with that. I do not know. I believe our bill says it would end in 1986.

We will take that under advisement as to what you have said here, Mr. Dickinson. It is not as easy as it was once upon a time to get more or less permanent legislation passed around here. However, I think RCA does make a real appraisal about every 5 years. We can always update.

I honestly do not believe we have any problem with the Great Plains. I believe all we have to do is just get with it and move it on. I think the day has arrived when there is more interest nationally in a program of this sort than there has even been before.

Much of that, I think, has come as a result of our tremendous row cropping programs that we have today and the loss of erosion. It is being lost by more ways than wind and water. There are other ways it is being lost.

Mr. DICKINSON. There are environmental concerns that have come to the forefront in the past decade. They tie right in with this. Certainly whatever is done to conserve soil and water helps the environmental aspect also.

Mr. JONES of Tennessee. Absolutely. There is no doubt about that.

Mr. Dickinson, we want to thank you for your testimony.

We have heard all of our morning witnesses.

I have a statement from the Honorable Keith Sebelius. I would like to ask unanimous consent that his statement be placed in the record at this point.

Without objection, so ordered.

[The prepared statement of Mr. Sebelius follows:]

**PREPARED STATEMENT OF HON. KEITH G. SEBELIUS, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF KANSAS**

Mr. Chairman, I'd like to thank you and my other colleagues on the committee for giving me a chance to share some of my thoughts on soil and water conservation.

No one is more aware of the need for sound conservation practices than a farmer in western Kansas. We learned hard lessons during the Dust Bowl days of the 1930's. But we learned them well. From 1953 to 1957, areas of southwest Kansas were as dry for as long a period of time as they were in the 1930's. We were fortunate this time, however, and our conservation practices helped avoid another Dust Bowl.

The problem is not solved, and our work is not finished. In the 7-month period from November 1978 through May 1979, wind damaged 2.9 million acres in the Great Plains States. We were fortunate in Kansas. Only 91,323 acres were affected. In Texas, over 1.4 million acres were damaged by this perennial problem of wind erosion. Each year, wind erodes 5.3 tons of soil from each cropland acre in the 10 Great Plains States.

I'm here today primarily to speak on behalf of the Great Plains Conservation Program (GPCP). This program was created to specifically address the unique climate in the Great Plains. Recurring drought continually places stress on the soil and water resources—and on the economic stability—of the region. Studies show that Great Plains participants' resources withstand these stresses better than those not participating.

Mr. Chairman, nothing is more essential to the future food production of our country's breadbasket than the Great Plains conservation program. This program affects 469 counties in 10 States stretching from Canada to Mexico. The 436-million-acre land area under this program produces 60 percent of our Nation's wheat and 30 percent of the country's cattle. The program allows landowners to work with the Soil Conservation Service to set up long-term schedules of protective improvements and provides Federal cost-sharing help for approved conservation practices.

I don't think I need to tell anyone on this subcommittee about the importance of these programs. Sound conservation practices are essential for safeguarding our future agricultural productivity and for meeting the clean water requirements of Public Law 92-500.

But the continuing pressures to cut Federal spending require that our future programs be directed more toward erosion control. In its Feb. 14, 1977, report, "To Protect Tomorrow's Food Supply, Soil Conservation Needs *Priority Attention*," the General Accounting Office said:

"Federal financial assistance is not being effectively directed toward critically needed soil conservation practices having the best payoff for reducing erosion. The direction of the Agricultural Conservation Program has shifted in recent years to providing proportionately more funding for practices which, although eligible for program funding have only temporary erosion control benefits or which are oriented more toward stimulating agricultural production and financially benefiting farmers than toward conserving the Nation's topsoil resources. If such practices—which many other farmers carry out at their own expense—were made ineligible for cost-sharing assistance, the funds so conserved could be used for critically needed, enduring, erosion control practices."

GAO also reported:

"In recent years, less than half of ACP's cost-share expenditures have financed measures that are primarily oriented toward soil conservation. Most of the money has gone toward measures that, although eligible for funding, are primarily production oriented or result in minimal soil conservation benefits."

GAO also criticized GPCP for similar problems.

Mr. Chairman, criticism such as this threatens the future of these essential cost-sharing programs. Thus, any effort aimed at extending and expanding conservation programs should also be designed to streamline them. High priority should be assigned to practices which significantly contribute to erosion control. Lower priorities should be assigned to other practices. Funding for projects should go first for high-priority erosion control. Only then will we see reduced pressures on our conservation program budgets.

Mr. Chairman, members of the subcommittee, thank you for your consideration of my views.

Mr. JONES of Tennessee. I will call a panel to the witness table from the National Association of Conservation Districts.

We will have Ken Kuykendall of Cherokee, Tex.; Walt Dion from Havre, Mont.; Leonard Graumann from Granite, Okla.; and Peter Meike, Jr., from Gaycee, Wyo.

Gentlemen, you may proceed.

STATEMENT OF KEN KUYKENDALL, CHEROKEE, TEX., REPRESENTING THE NATIONAL ASSOCIATION OF CONSERVATION DISTRICTS; ACCOMPANIED BY WALT DION, HAVRE, MONT.; LEONARD GRAUMANN, GRANITE, OKLA.; AND PETER MEIKE, JR., GAYCEE, WYO.

Mr. KUYKENDALL. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee, I am Kenneth Kuykendall, Cherokee, Tex., president of the Texas Association of Conservation Districts and chairman of NACD Great Plains Committee. It is a pleasure for the National Association of Conservation Districts to have this opportunity to discuss the Great Plains conservation program. I regret that my Congressman, Mr. Hance, from Texas, is not able to be here at this time.

Mr. JONES of Tennessee. I will tell you where he is. He is in the full committee meeting now discussing gasohol.

Mr. KUYKENDALL. NACD, as we are commonly known, represents the Nation's 2,950 conservation districts, the 50 State associations of

conservation districts, and the 17,000 conservation district officials that serve them.

The other members of my committee, the Great Plains committee, who are here at the table with me today are Mr. Walt Dion from Montana; Mr. Graumann from Oklahoma; and Mr. Meike from Wyoming.

Mr. JONES of Tennessee. Gentlemen, we are pleased to have all of you with us today.

Mr. KUYKENDALL. Our association has been deeply concerned with land and water resource management problems of the Great Plains area which are magnified by the severe and cyclical climate conditions of that area. NACD was instrumental in the preparation of the original legislation which established the Great Plains conservation program. We have sought financial support for the program ever since.

The Great Plains conservation program is unique among early conservation programs in that all work done on the land is based upon a conservation plan for the entire landholding. This plan is agreed upon by the landowner, the appropriate conservation district, and the Federal Government.

This plan serves as the basis for a contract between the landowner and USDA. The landowner is thus assured of both financial and technical assistance from the Federal Government for installation of the necessary conservation practices to protect his land from wind and water erosion.

The program has demonstrated its ability to assist small, low-income farmers make maximum use of their resources; accelerate land treatment of critical sediment-producing and wind-erosion areas; reduce maintenance cost of public utilities; reduce pollution of air and water; stimulate local economies and kindle pride and confidence in conservation program objectives; and make rural areas more attractive and rewarding places in which to live and work.

The program is active in 469 countries in 10 Great Plains States. Since its inception in 1956, 15,944 contracts have been serviced, covering 104,575,000 acres. Of these contracts, 13,621 contracts are still active. There are 4,919 applications presently unserved with an average acreage of 2,400 acres.

In our opinion, some of the strengths of the present program include the 5-year to 10-year contracts and the administration of the program by the Soil Conservation Service. By having the contractual responsibility and the technical responsibility in one agency, budgeting and personnel management is greatly simplified.

The Great Plains conservation program has served as a model for more recent conservation cost-sharing efforts, namely, the Rural Development Act of 1972 and the agricultural costsharing provisions of the Clean Water Act of 1977.

We have all been involved in this Great Plains program since it started 23 years ago. We have firsthand grassroots knowledge of the vast amount of lasting conservation work that this unique program has accomplished.

The Great Plains conservation program uses a proven concept of applying permanent conservation practices with priorities on critical areas. These priorities are determined by the Soil Conservation Serv-

ice, the local conservation districts, and the landowner. A complete conservation plan is worked up on the whole farm and is carried out over a 3-year to 10-year period.

This program puts the highest priority on converting marginal for cropland that never should have been plowed up in the first place, back to grass, and then improving the cover on the other lands to prevent water and wind erosion, improve air and water quality, and improve wildlife habitat.

The only reason that more landowners have not participated in this program is because funds were not available. There are at least 5,000 unserved applications on hand now. Contracts are written each year because the average cost per contract is doubled while the funds have decreased.

In the years ahead we will see increased pressures on our farmlands to produce food to feed a hungry world. The people who farm and range in these areas are subject to such violent changes in the weather, from drought to floods, from hailstorms to grasshoppers, from feast to famine. They need all the incentive that they can get to apply permanent conservation practices to their land and resist this temptation to plant from fence row to fence row where prices are good. Congressman English mentioned his concern of this earlier.

As you are aware, the present program is authorized only through December 1981. We encourage you to reauthorize the program, essentially in its present form, to keep this most effective program alive and well.

We do have a few suggestions for the improvement of the program which we hope you will consider. They are as follows:

One, extend the program at least to September 30, 1987. This date is chosen because the Soil and Water Resources Conservation Act—RCA—requires the Secretary of Agriculture to review all conservation programs and submit an appraisal, policy statement, and program to Congress in January 1985. This will give Congress time to consider the recommendations of the administration in conjunction with reauthorization legislation for Great Plains during 1985 or 1986.

Two, we recommend that the coverage of the program remain essentially the same as at present, with additions left to the discretion of the Secretary of Agriculture. The program was designed to address specific conservation problems in a specific climatic region. To dilute this effort, we believe, would be unwise.

Three, since 82 percent of the total program limitation of \$300 million has already been expended, we recommend that this limitation be either raised or removed entirely. The original program limitation was \$500 million. This was reduced to \$300 million in subsequent amendments.

Four, the present yearly program payments limitation of \$25 million should be raised to \$50 million or removed entirely. There is a need to accelerate the program to service presently unserved applications.

Most of the members of my committee have completed Great Plains contracts on our own farm, so we feel like we can answer nearly any question that you wanted to ask about the Great Plains program and its operation.

Thank you for the opportunity to express our views.

We will be glad to respond to any questions you may have.

Mr. JONES of Tennessee. Thank you very much, Mr. Kuykendall, for the statement. We appreciate the presence of all you gentlemen. Mr. English?

Mr. ENGLISH. Thank you, Mr. Chairman.

First of all, let me say that Mr. Graumann is from Granite, Okla., which is in my district. I am pleased to see that he is here today.

First of all, let me lead all of you into the same question that I have been raising all morning as to the effects, insofar as conservation is concerned, and the advances that have been made with regard to the Great Plains program, the farm situation in the Great Plains in general, and what the program were are looking at for this next year will mean.

Do you gentlemen share my concern as to the potential devastation to the Great Plains area unless there is some action taken by the Congress in the next 30 days to at least provide a greater incentive to hold to that normal crop acreage?

I suppose the next question is this. Would you agree that action to hold to the normal crop acreage is probably the most critical conservation question that will be facing the Great Plains in the next 12 months?

I would like for each of you to comment on that.

Mr. KUYKENDALL. I agree with you 100 percent on everything you have said. It is a great danger that we are facing. It is a shame that the bureaucracy cannot act fast enough and anticipate these things to prepare programs ahead instead of reacting after it is too late.

As I say, that is one of the advantages of the Great Plains program, that is, to try to encourage lasting programs and reverting the marginal cropland back to grass.

I know in Texas, particularly, that we do have areas that I am sure farmers have plowed up in the past year and will plow up in the months ahead. These are lands that never should have been plowed up. I fear it is too late for a program to be put into effect with regard to that. But there should be something that should be done to slow this down.

Mr. GRAUMANN. I concur with Mr. Kuykendall, Mr. English, on that.

Mr. DION. I am from Montana. We have a large State out there. The wind blows quite a bit. In the eastern part of Montana it has been broken up into marginal land. That never should have been broken up. It was one time and they seeded it back to grass. They are breaking up thousands of acres.

I think if we can get this program back in with the better cattle prices that we can get some of this land back to grass. If we do not, and if there are some dry years, we will have a real disaster like in the thirties.

I personally have completed a Great Plains contract. This is pretty flat ground where I am. This is the best method of getting a complete conservation program on a farm. It does a complete job. We have the ASCS technical assistance. We have good range management. This is a real good program.

Mr. KUYKENDALL. I have one further thought.

It looks to me like the ASCS directors and the Department of Agriculture could warn these farmers that they are not going to be able to collect disaster payments and insurance payments if they plow up the land that should not have been plowed up in the first place. There could be some way you could work that in.

Mr. ENGLISH. I believe at least for the coming year that the way the law is written they do not have the authority to take that kind of action.

The main thing that we are faced with evidently, as I understand it, is that the Department does not have authority, at the present time, to even require farmers to hold to the normal crop acreage.

There is no set-aside and once the Department declared there was no set-aside, it is a free-for-all. It is a wide open turkey shoot. Anybody can do anything they want to and they will still collect the target price on wheat in the neighborhood of \$3.07 or \$3.12. You know as well as I do what that means. You can come up with all kinds of ideas.

Mr. Chairman, given what we have heard this morning, and even the testimony from the Department, I would like to move that we advise the chairman of the full committee, as well as the full committee itself, as to the testimony we have heard this morning and the importance to conservation for some kind of action to take place within the next 30 days to try to get farmers to hold to the normal crop acreage.

It seems to me that is the critical issue, at least within the next 12 months, that we will be facing insofar as conservation is concerned. We could be turning back the clock 10 years, unless we are able to move, and move quickly.

Mr. JONES of Tennessee. Are you suggesting we might advise the chairman of the full committee, or should we ask him to advise the Secretary?

Mr. ENGLISH. It appears that the Secretary is aware of this, given the testimony of the Department. I just think it is important that the members of the full committee, and certainly the chairman of the full committee, be aware of how critical this thing appears to be.

Mr. JONES of Tennessee. There has been good evidence here this morning.

Are there any objections to that kind of thing?

If not, I will say that we unanimously agree to that. We will direct staff to prepare a letter to the chairman of the full committee and let him get with the Secretary.

Mr. ENGLISH. I wonder if we could also give copies to the members of the full committee so they can be advised as well.

Mr. JONES of Tennessee. Yes, without a doubt.

Mr. ENGLISH. I thank you, Mr. Chairman, and these witnesses.

Mr. JONES of Tennessee. Mr. Hance?

Mr. HANCE. Thank you, Mr. Chairman.

I apologize I was not here earlier. I thought the gentleman were going to appear this afternoon. I have been at the full committee where we are marking up a gasohol bill. The corn farmers in my district are interested in that.

Mr. Kuykendall, I appreciate your being here. You do not live in my district, but I appreciate your presence. I am familiar with your work with the Soil Conservation people there in Texas.

I think something that would be interesting to me and to the other members of the subcommittee and the staff members would be this. I would like for you to explain a little bit about your participation in the program. If the other people there at the witness table have participated, I would like to hear from them as well. I would like to know how much acreage has been turned back to grass. I would like for all of you to go through that.

Mr. KUYKENDALL. I have completed the Great Plains program on my own ranch. I have about 5,000 acres. Insofar as converting marginal land to grass is concerned, I have actually converted approximately 100 acres of cropland to permanent grass. This will never be returned to grazing or row crops or any crops, insofar as I am concerned. It will remain grass.

I have concentrated on improving my pasture and my range. I have received cost-sharing on building pipelines to better distributing grazing and also to the fields that I have planted in grass. I have received cost-sharing on brush control to improve the better water utilization.

So far as the general overall picture of my ranch is concerned, the carrying capacity, insofar as cattle is concerned, has probably doubled.

Mr. HANCE. How many years did it take to return your cropland to grass where it could be utilized for grazing purposes?

Mr. KUYKENDALL. Actually about 1 year. You can plant the seed in the spring and let it go to seed in the fall. After that, you can graze it. We are a little bit in a more favorable rainfall position than they are in some areas. We receive about 25 or 26 inches a year.

Mr. HANCE. What about the rest of you?

Mr. MEIKE. I am from Gaycee, Wyo. On our ranch we have completed the Great Plains program. I do not know whether we are lucky or not, but we are in an area that has not much farming on account of the rainfall. We are in a 10-inch to 12-inch rain belt, so we will not be plagued with too many people plowing up lands and planting crops because it is not feasible. However, we have done a lot of work on water impoundment to stop erosion and some brush control.

What I would like to stress is the wildlife increase that we have had on our ranch since we have been in our Great Plains program. Every water impoundment brings a few ducks in. The deer population is up. I think probably we have the best deer hunting in the State of Wyoming on our ranch. We have approximately 250 to 300 hunters coming to our ranch every fall. Most of them are out-of-Staters. We own or control about 35,000 acres, but that is still quite a few hunters.

Also, I would say between 60 and 70 percent of the hunters get their game and are satisfied and come back the next year.

I think that is one of the great things about our area. The water impoundments scatter the game out and gets them out away from the river bottoms and back out into the hills. It has really increased the wildlife capacity of our country.

Mr. GRAUMANN. In response to your question, Congressman, we have returned approximately 300 acres back to grass. Our operation is

diversified. We raise cotton, wheat, cattle, and alfalfa. We took our marginal land and converted it back to grass. On the land that we cultivated, we have the complete terrace and waterway system on our entire operation.

We have established needed reservoirs in our pasture lands. As Mr. Meike said, you would be surprised the way it has increased wildlife. Recently the Oklahoma Wildlife Federation designated our home place as the dove hunting capital of Oklahoma. This really all came by accident just from the reservoirs that we built next to the water that runs through our farm.

In our immediate area we probably will not see much of the marginal land to be plowed up and returned back to farmland. It is something, however, that we are concerned about.

I never cease to be amazed at the cooperators that whenever they sign a 10-year contract under the GP program how they work toward the deadlines. It is like meeting a note at the bank. They become very conscientious and dedicated to it.

Mr. DION. I have a Great Plains contract in Montana. We have a 9,000-acre diversified ranch. Some of the land is kind of hilly, so we have to treat it with tender care and make sure that we have enough stubble mulch which goes along with the program. I have reseeded about 1,000 acres of land that had been overgrazed when I bought the place in three different pastures. It has really made the production double about to three times what it was earlier.

I also have a pipeline for better watering so they do not have to travel so far. I have some pits. I have developed some irrigated land with this program also.

Like Mr. Meike says, I have noticed the increase in the wildlife because it is a better habitat with better cover. You learn to use a little grass, leave some, and use some. I think the education that goes along with this program is very important. You get people to sign up for the Great Plains program. They go through a contract. They are good conservationists after that.

Mr. HANCE. Gentlemen, I want to thank you.

Mr. JONES of Tennessee. Mr. Marlenee?

Mr. MARLENEE. Thank you, Mr. Chairman.

Let me welcome my constituent from Montana. He is from my district. I am very familiar with the area. I know that Mr. Dion runs one of the best operations going up in that country.

One of the most valuable aspects of the Great Plains conservation program is that it is ongoing. We do have contracts. There is continuing improvement and incentive for continuing that improvement, not just for the next year. It is not an in and out proposition. We do not spend a huge amount of money 1 year, let us say, for stripping or stubble mulch or something like that, but we have the education and the ongoing direction. I do not know if any of you have addressed that problem, but I would like comments in that regard, if you have any.

Mr. KUYKENDALL. The number of contracts in the State, or overall?

Mr. MARLENEE. Give me your general perception of that concept.

Mr. DION. In Montana we have 56 counties and 39 are served by the GP. At present, we figure that there are 25 million acres that originally should be covered. We are about half done with that. There are 13 million acres to do yet. This could be contracted for.

Mr. MARLENEE. What are the terms of these contracts? How long are they?

Mr. DION. They are from 3 years to 10 years.

Mr. MARLENEE. I see.

Mr. KUYKENDALL. A lot of statistics were given earlier. It all boils down to this. I think we have completed treatment on probably 105 million acres in the United States. There are probably 75 million more that need to be treated in what you might call critical areas in the Great Plains and other type areas like the Great Plains.

Therefore, we are a long way from being through. As you say, Mr. Marlenee, it is a continuing process. We get new people coming into an area. They do not realize the dangers that the natives saw. They are more liable to plow up these areas. We have to keep educating people to the dangers. It is a continuing process.

Mr. MARLENEE. Thank you, Mr. Chairman.

Mr. JONES of Tennessee. Thank you, Mr. Marlenee.

Are there any other questions or comments?

If not, gentlemen, we thank you for being here. We hope to meet your travel plans. We appreciate the work that you are doing with the conservation program. I think every member of this subcommittee is in total agreement that the Great Plains program has been a great success in the 23 years it has been operating. We appreciate the recommendations that you have made to us.

Mr. KUYKENDALL. Let me say one thing. It is often asked: How does the public benefit from these cost-sharing programs?

Everyone who sees it, I think, becomes aware that these conservation practices do reduce the sediment that goes into water supplies and reservoirs. It does improve the quality of the water and the air and the whole economy of any area that has a good conservation program. It is more stable. It is more prosperous. The general public, then, will have a cheaper and more dependable supply of nutritious food in the years ahead. Of course, the tax base is protected.

So overall, conservation is wise use of these resources that we have and the management of them in a way that will be of benefit to the people in the future. That is all we are concerned about, that is, making this a better world to live in.

Mr. JONES of Tennessee. Thank you. We appreciate that.

The subcommittee will now stand in recess until 2 o'clock.

[Recess taken.]

AFTERNOON SESSION

Mr. BEDELL [acting chairman]. The subcommittee will come to order.

Our first witness this afternoon is our colleague, Mr. de la Garza from Texas. We appreciate his being before us.

STATEMENT OF HON. E de la GARZA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. DE LA GARZA. Thank you, Mr. Chairman.

First, let me apologize for not being here this morning. As you know, I was occupied elsewhere, presiding over the full Agriculture Committee.

I have a prepared statement. I am cosponsor of this legislation, and therefore, of course, I sponsor it without reservation. I know witnesses from the area and from several organizations will appear later to present more in-depth testimony. I would like to accent the need for the continuation of this legislation.

There is an interest in my area for expansion at the discretion of the Secretary for counties that might qualify. This is very important to my area of Texas in that the exact same situation exists in counties that are not now covered by the Great Plains program and which have not only the desire but the need to participate in this endeavor.

I would hope that the final legislation keeps this proviso so that at the discretion of the Secretary they would allow adjacent or contiguous counties to qualify for participation in the program.

With that, Mr. Chairman, I would leave my prepared text. Thank you for your kindness in allowing me to start your afternoon session this afternoon.

Mr. BEDELL. Thank you.

Without objection, your written testimony will be inserted in the record at this point.

[The prepared statement of Mr. de la Garza follows:]

STATEMENT OF HON. E DE LA GARZA, A REPRESENTATIVE IN CONGRESS FROM THE
STATE OF TEXAS

Thank you, Mr. Chairman, and Members of the Subcommittee.

Today I come before you to discuss H.R. 3789, the extension of the Great Plains Conservation Program.

A hundred years ago people were moving into the Great Plains area in order that they could secure a part of the most valuable and unique asset, land.

The first settlers were ranchers whose cattle grazed from the Dakotas to Texas. Then came the farmers with their strong backs and plows. They cut the fibrous sod in strips and used it to build their homes.

For the most part, the land was not very well landscaped for these settlers. The trees and easy shelters were missing. The land yearned for water.

But to many the Great Plains was a dream come true. Free land for the homesteading.

At first, the farmers prospered. And as they prospered, they ripped up more and more land, planted more wheat and cotton. It wasn't long before they discovered that farming the plains was different from farming in the east.

More settlers soon found that much of the semiarid land couldn't sustain continuous cropping.

Periodic droughts were economically disastrous to the people and the land suffered.

The delicate soil, without the protective cover of grass, eroded in the slightest wind.

Later in the early 1930's nature came up with the worst drought in history and 50-mile-an-hour winds swept the area.

Gigantic clouds of dust and dirt literally blacked out the Sun during mid afternoon.

This, as you all well know, was the Dust Bowl that triggered the greatest regional out-migration the country had ever seen.

Following another drought in the 1950's, it was obvious that this high risk farming area needed a conservation program of its own. And, as you well know, the program became a reality in 1956.

Practices such as: converting cropland to grass, developing field strip-cropping, building terraces, diversions, fences, and adequate stock water systems. More than 30 conservation practices are included in the program, all designed to protect soil and water and lessen the impact of drought.

This high-risk agricultural area, stretching from the Dakotas to Texas, is invaluable to our future. From this area we get 60 percent of our wheat and 30 percent of our beef cattle.

It is truly the bread basket of the nation.

I commend you, Mr. Chairman, and the rest of the Members of the Subcommittee for taking up consideration of this very important piece of legislation which I hope will receive favorable consideration in the Subcommittee.

My bill would:

(1) Extend the program at least to September 30, 1987. This date is chosen because the Soil and Water Resources Conservation Act (RCA) requires the Secretary of Agriculture to review all conservation programs and submit an appraisal, policy statement, and program to Congress in January, 1985. This will give Congress time to consider the recommendations of the Administration in conjunction with reauthorization legislation for Great Plains during 1985 or 1986.

(2) Remove the \$25 million annual funding limitation.

(3) Remove the \$300 million total program funding limitation.

(4) Give authority to the Secretary of Agriculture to expand the program to other counties and other states not presently in the GPCP Program area.

My District is not covered by the GPCP which, in fact, stops in the middle western part of the state. I have a few counties in my District which I am sure would qualify while on the other hand there are several other counties which would not qualify. It is important that we continue to implement this great program and afford other problem areas the opportunity to become part of this successful experiment.

Therefore, in response to current and future conservation needs, I urge your favorable consideration of this very important piece of legislation.

Mr. BEDELL. Mr. Madigan?

Mr. MADIGAN. Mr. Chairman, I have no questions of the witness. I would comment that the gentleman from Texas, Mr. de la Garza, has been very helpful to the chairman and the ranking member of this subcommittee. I am sure the subcommittee will be very much interested in anything the gentleman from Texas supports.

I thank you for coming.

Mr. DE LA GARZA. Let me say this.

I very much enjoyed my service on this subcommittee. I say this in no other way except as factual information that the reason I left this valuable subcommittee was to allow one of our younger freshman colleagues from Texas to serve on it. I yielded my place to him. It was not any lack of desire to serve on the subcommittee, but rather to allow a younger member to begin his career in gaining expertise.

Mr. BEDELL. We appreciate your cooperation in that regard Mr. de la Garza.

Mr. Jones, do you have any comments at this time?

Mr. JONES of Tennessee. No, not at this time.

Mr. BEDELL. Thank you very much.

We will call our next witness, Mr. Robert Koch, president of the National Limestone Institute.

Mr. Koch, you may proceed.

STATEMENT OF ROBERT M. KOCH, PRESIDENT, NATIONAL LIMESTONE INSTITUTE, INC.

Mr. KOCH. Thank you, Mr. Chairman.

Mr. Chairman, and members of the subcommittee, you are to be congratulated on having this series of hearings. All too few of our people—including many of your colleagues in the Congress—fully understand the value of our soil and water.

As we see the headlines in our news media literally screaming about the many problems besetting not only our Nation but the world as we

face up to the current serious problems on energy and inflation, all too many of us fail to realize several fundamental facts. Not only are we the best fed and best clothed Nation on the face of the Earth, but our people spend the least amount of hours earning these essential features of life.

And why is this so? There are two major factors:

First, when the Congress recognized that we were exploiting and wasting our two greatest natural resources—our soil and water—they passed the landmark legislation, the Soil Conservation and Domestic Allotment Act of 1936.

Second, and by no means the lesser, is the outstanding and unusual efficiency of the American farmer.

Every month we see the cumulative effects of these two significant factors as we go into the local grocery store to get all we want of a great variety of foodstuffs, but we also see the huge surpluses of agricultural products shipped overseas to help offset our huge expenditures for foreign oil.

And while we have been quietly accomplishing much for the American consumer during the last 43 years, we have been losing ground rapidly during the last 25 years.

As you know, Mr. Chairman, it was my privilege to begin administering what was then known as the AAA in my home county in Massachusetts in 1936. And after 5 years, I came to Washington to be in charge of the conservation and materials section for the nine Northeastern States where I stayed for another 5 years before coming to this position in 1946.

During that 10-year period, I literally saw the whole area blossom as millions of farmers all over this Nation leaped at the opportunity to form a partnership with their Government to build up the soil.

Let me give you an illustration. This was in the days before airplane travel, and as we drove from Washington up through Maryland and Pennsylvania to our State office in New York State at Ithaca, we saw acres and acres converted from ordinary timothy and other grasses to clovers and alfalfas.

One of the principal reasons why the Northeast—in fact, the entire country—was not growing more legumes was because the soils had become too acid.

Let me remind you that almost every land-grant college had outstanding demonstration plots showing the advantage of growing legumes, and the county agricultural agents were promoting this and the use of aglime as being fundamental. But because of the extreme economic difficulties facing the American farmer, the use of aglime had shrunk to only 1 million tons a year nationally.

Under the impetus of the partnership arrangement with their government, the farmers increased the use of aglime to over 30 million tons annually in the 1940's.

And may I add, many other beneficial practices for soil improvement and water conservation were also carried out during this period under what we now know as the ACP, agricultural conservation program.

And then the budget balance got into the act. As surpluses of some farm commodities piled up, many decided the ACP was to blame. Why should the Government help at all in a situation where surpluses were becoming a problem?

First, it was just to cut the funds for the program, which the Bureau of the Budget, later to be named Office of Management and Budget, did exceedingly well—and still does.

Second, ACP opponents seized upon the terms “long-range” versus “annual,” et cetera, to criticize various practices. As all true conservationists know, all conservation practices eventually enhance production, whether long or short term.

And so budget balances and those who do not know have collaborated to drastically curtail the funding for this partnership arrangement Congress authorized in 1936. Consequently, instead of a comparable figure to the \$500 million authorized in 1936—it would be \$32 billion adjusted for inflation today—we have OMB recommending anywhere from zero to \$125 million a year. The more enlightened Members of Congress have protested, but were fighting a rearguard action, and so the funds were reduced to \$350 million, \$300 million, \$275 million, et cetera, until today they stand at \$190 million.

What has been the result? Instead of millions of farmers participating—and that means hundreds of millions of acres—we now have only a few hundred thousand farmers participating. And because of inflation, as well as the total reduction of funds to say nothing of flat prohibition of certain practices by administrators, only a paltry few millions of acres of cropland are still being treated with proper long- or short-term conservation practices.

Farmers used to request nearly \$1 billion of ACP assistance, which they were willing to match with their own money. But as county committees were forced to only allocate as little as \$20 or \$30 per farm of ACP assistance due to drastically curtailed authorizations by Congress, farmers gave up in disgust, and millions rarely ever go to the ASCS county offices today.

Today, when nearly everyone understands that our balance-of-payments deficit would be \$25 billion to \$350 billion more each year if we had no agricultural surpluses to sell overseas, you would think all would want to protect the plant—soil and water—that is responsible for this.

Most, of course, do not realize that, in the \$25 billion to \$30 billion of farm crops we are shipping, much of our natural resources are going overseas and have to be replaced.

I, for one, am delighted. Mr. Chairman, that you have decided on these national hearings to focus attention on the serious drain on one of our Nations greatest assets—our ability to produce not only the highest standard of living for our people, but substantial surpluses for sale overseas. If you, Mr. Chairman, and your colleagues do not reverse the trend in the last 25 years and restore the literally fantastic conservation effort from 1936 to 1956, future generations will pay a very high price for our neglect.

What do I suggest? As I visit with farmers in all 50 States, I am impressed with their willingness to carry out basic conservation practices. But they are dismayed when they get the impression the rest of the Nation expects them to do the total job.

They want:

One, more cost-sharing funds which they will gladly match;

Two, they believe there has been too much power given to Washington bureaucrats to decide what is best for their area rather than leaving it up to the county committees whom they elect; and,

Three, they are appalled with the proliferation of Government agencies in the conservation area. The latest effort to set up a duplicate cost-sharing agency in connection with the Clean Water Act when ASCS is already in existence in every one of the 3,000 counties seems like a prime example of congressional mismanagement. Farmers cannot understand why they cannot go to one place to get information on the Federal conservation programs available to their farms.

So, Mr. Chairman, in conclusion, let me again congratulate you on holding these hearings to ascertain firsthand what farmers of this Nation think about our total national conservation effort.

Whatever program you finally come up with, I hope its effectiveness in accomplishing the necessary soil and water conservation needed in the Nation and the efficiency of the Government administration of it can match the effectiveness and efficiency already demonstrated by the Nation's farmers in meeting our annual requirement of food and fiber.

Let me mention a few things. You and I had the privilege of addressing the NASCo convention in Memphis. If you will recall, some of the things which you heard this morning about the types of practices that should be completed were touched on at that conference.

When I spoke with the thousand delegates in Memphis and mentioned that it seemed to me that some of the practices had been cut out due to the so-called reorientation, or the different direction in which the program was supposed to go, and when I said that the county committees ought to have more to say as to what kind of conservation practices were carried out, I got the unanimous vote of applause from the group.

I was a little bit disturbed as I sat here this morning to hear people talk about conservation. No one in the country is opposed to conservation. We have a lot of rhetoric about conservation and what it means.

I submit, Mr. Chairman, that I do not know of any nation that has ever done anything like we have done of organizing all the farmers through 9,000 county committeemen and community committeemen into a force to participate in doing something about the soil depletion which was in such terrible shape when this act of Congress was passed in 1936.

I submit that all the nice things that were said this morning, if we are not too careful, will wind up on just demonstration farms or on some key farms. The saying that disturbs me to no end since I have watched it since 1936 is that we used to have millions of farmers participating in this partnership arrangement with the Government. There were hundreds of millions of acres of land participating each year.

What do we have today? We are under a million farms already. Lots of areas have less than 10 percent to 20 percent of the farmers who participate.

While all of the things that have been talked about here this morning are excellent and good, I would hope that as we address this problem for the future that we would build on the type of program, or an approach that was organized in 1936 of bringing into real effect a great many farmers and not just a few outstanding farmers.

Our soil conservation and water conservation problems are at every area of the Nation almost. I know of no Government agency that accomplishes as much for the taxpayer as the ASCS county committee does in this Nation today.

I hope that as we come up with new programs that we do not come up with cost-sharing programs that set up another bureaucracy so that farmers have to go to two or three different places. I hope that all can be kept together. I am not saying that the ASCS program or the community system is perfect. You served on it, Mr. Chairman. You know how it can be improved. I know also.

It seems to me that this idea of enlisting as many farmers as possible in the total effort is something that was well thought out and started in 1936. I think we really have not done a good job in the last few years as we did in the early 1940's and 1950's.

I think we ought to go back and, however you call it, put it together. We should enlist the largest possible number of farmers. They have shown, by the way, as I am sure you know, that is, they have agreed to match billions of dollars under the ACP.

As I said a moment ago, the budget balancers saw to it that we had the ACP cut way back. The \$500 million we had in 1936 should be billions of dollars by comparison in terms of inflation or the national budget.

If we could get a more realistic cost-sharing program going and get as many farmers as possible participating, I think that is the cheapest way of bringing about this basic conservation job which I think, I know—and you know, too—should be done. We have done the best job of any nation in the world, but we have slipped in the last few years.

These hearings are important. You are listening to farmers over the country. You are bringing into focus this issue. I think we need it badly.

Thank you, Mr. Chairman.

Mr. JONES, of Tennessee. Thank you very much for a fine statement. We appreciate the wisdom and the cooperation that you have always offered this subcommittee. We appreciate very much your stand on the issues.

Let me say this. I know of no man who represents a position in Government or outside of Government who is a greater conservationist than you. I have always appreciated your company and the fact that you are around to give support to such fine programs and issues we are discussing today.

Are there any questions by members of the subcommittee? Mr. Madigan?

Mr. MADIGAN. I have no questions, Mr. Chairman.

I would like to reiterate what the chairman said, Mr. Koch. Your reputation is very well known and you are held in the highest regard by members of this subcommittee.

We believe that you have some friends in the administration. I hope you will talk with them as well, because we do not think the Congress of the United States wants to cut funding of agricultural conservation programs. We are concerned that we might need the help of people like yourself in trying to deal with the White House. Thank you.

Mr. JONES of Tennessee. We thank you for your testimony.

We do intend to have more hearings here and across the country.

Our next witnesses consists of a panel of members of the National Association of Farmer-Elected Committeemen.

We have Nelson Hundstad, president; Mr. Billy League, vice president; and Lawrence Hughes of the Tennessee Association of Farmer-

Elected Committeemen. Mr. Hughes, a farmer, is a constituent of mine. Gentlemen, you are welcome. We are glad that you would take time out to be with us today.

You may proceed.

STATEMENT OF NELSON HUNDSTAD, PRESIDENT, NATIONAL ASSOCIATION OF FARMER-ELECTED COMMITTEEMEN

Mr. HUNSTAD. Thank you, Mr. Chairman.

First of all, let me say that we certainly appreciate the opportunity to be here and to appear before the subcommittee.

I would have to say that more than being able to appear before your subcommittee we appreciate the opportunity and the knowledge that we have somebody who recognizes in Congress—and I am not suggesting that you are the only people who do—but that we have some people who really recognize the seriousness of conservation in our country.

I cannot help but think that our energy crunch that we are experiencing at the present time will probably look like a Sunday school picnic alongside what it would be like if we were not able to raise the food and the fibers that we need to sustain life in our country.

I really appreciate this opportunity and the fact that you people are concerned about this.

I sometimes worry that maybe people do not recognize the seriousness of this situation. It is a duty of all the people in the United States, in my thinking, to contribute toward the conservation of our lands. It is probably as important to nonfarmers as it is to farmers; maybe even more so.

The partnership arrangement that we have had through ACP is a reasonable approach. It is going to be important for our entire population someday.

Before this panel retires, I would like to have an opportunity to say a few more words, but before I do, let me introduce the people here with me.

I suppose we are a little remiss here. I am Nelson Hundstad. I live and farm near Aberdeen, S. Dak., which is located in Northeastern South Dakota in the James River Valley. At present, I am president of the National Association of Farmer-Elected Committeemen and have served 23 years on the Brown County ASC Committee.

With me today is the vice president, Mr. Bill League from Alabama and Mr. Lawrence Hughes of Tennessee. He is the president of the Tennessee Association of Committeemen. Let me introduce him first and let him say a few words.

I would ask that my prepared remarks be placed in the record.

Mr. JONES of Tennessee. Thank you.

Without objection, they will be placed in the record at this point. [The prepared statement of Mr. Hundstad follows:]

STATEMENT BY NELSON HUNDSTAD, BATH, S. DAK., PRESIDENT, NATIONAL ASSOCIATION OF FARMER-ELECTED COMMITTEEMEN

Mr. Chairman and members of the subcommittee, my name is Nelson Hundstad. I live and farm near Aberdeen, S. Dak., which is located in Northeastern South Dakota in the James River Valley. At present, I am president of the National Association of Farmer-Elected Committeemen and have served 23 years on the Brown County ASC Committee.

I sincerely appreciate the opportunity to appear before your subcommittee, but even more, I appreciate the fact that you recognize the importance of a good conservation program.

The farmers of our country know many things to do to protect the soil and water of our country and are willing to invest money to protect the productivity of our lands for future generations, but there is a limit to how much they can afford. Is it not as important to the millions of Americans who are not farmers to share in the cost of preserving a food supply for future generations?

The Soil Conservation and Domestic Allotment Act of 1936 has been, and continues to be, a tremendous success, administered by the Farmer-Elected County and Community Committees. Who better knows the needs of our farm and ranch lands than the farmers who have had to work in harmony with mother nature in order to survive. There are two big problems with the ACP.

1. The lack of funds. Farmers have demonstrated over and over their willingness and desire to carry out sound conservation practices in partnership with their government by applying to their county committees for several times the amount of money available. This fact has had a very discouraging effect on many farmers. I believe that there should be some kind of continuing funding so farmers would know from year-to-year that they could count on some financial assistance to continue a sound conservation program of their farms.

2. A greatly reduced and changing list of approved practices has also discouraged many farmers and their elected representatives on the county committees. There is constant change in the list of so-called "approved" practices that the county committees can choose from in preparing their county conservation program. I do not believe anyone is more qualified to decide what is a good conservation practice in an area than the people who make their living in that particular area.

I have talked about the successes and failures of our ACP program, but I would like to remind you that conservation is not something that you do once and then it is finished. Protecting our soil and water is a continuing and changing battle which is never over.

Anyone who lived through the "dirty-thirties" when one could not see to drive down the road in the middle of the day because of dust in the air or could not drive a tractor through his fields because of blow-outs, will never again become careless with his conservation program, but he needs your help.

Thank you, Mr. Chairman and members of the subcommittee.

Mr. JONES of Tennessee. Mr. Hughes, we are delighted to have you with us today.

Please proceed.

STATEMENT OF LAWRENCE HUGHES, PRESIDENT, TENNESSEE ASSOCIATION OF FARMER-ELECTED COMMITTEEMEN

Mr. HUGHES. Thank you, Mr. Chairman.

My name is Lawrence Hughes. I live in the small town of Arlington, Shelby County, west Tennessee, the same county that Memphis is in. I am proud of the fact that the Honorable Ed Jones is my Representative to the Congress of the United States. I consider it a distinct honor to have been given the opportunity to address this subcommittee today on the subject of soil and water conservation from the point of view of the farmer and the farmer-elected committees of the ASCS; especially from the State of Tennessee. As their president, I represent over 1,000 members of TAFEC, a member of the National Association of Farmer-Elected Committeemen.

It seems to me, Mr. Chairman, that in the enactment of the Clean Water Act by the Congress, an enormous burden has been placed upon the farmer and that only with greatly increased funding and help through the ASCS system, as it is today, can this country ever hope to achieve the goal of controlling the staggering loss of our most

precious natural resource, our soil. In the western part of my State, as an example, the average yearly loss is about 40 tons per acre. Unacceptable? Of course it is, but in 1979, Shelby County's ACP allocation was \$63,478, whereas in 1972, it was \$92,217. Next Thursday, my committee will meet and will have to reject applications for ACP because we have run out of money.

Funding for such a vast undertaking is a bullet that must be bitten, one way or another, whether it be under the present program of Government/farmer partnerships, export taxes, or some sort of tax-free bond issues similar to what is happening in some areas in the housing problem.

I do not know what the solution is, but I do know that whatever program you finally enact, the ASCS system of farmer-elected committees across this country can administer it efficiently and fairly.

Thank you for the opportunity you have afforded me to make this statement to the committee.

Mr. JONES of Tennessee. Thank you, Mr. Hundstad.

Mr. HUNDSTAD. Mr. Chairman, our next panelist is our vice president from Alabama, Mr. Bill League. He would like to deliver a statement.

Mr. JONES of Tennessee. Mr. League, we are pleased to have you with us today. Please proceed.

STATEMENT OF JOHN W. LEAGUE, VICE PRESIDENT, NATIONAL ASSOCIATION OF FARMER-ELECTED COMMITTEEMEN

Mr. LEAGUE. Thank you, Mr. Chairman.

My name is John W. [Billy] League, 260 Murphy Hill Road, Toney, Ala.

I am a full-time farmer producing about 1,200 acres of cotton and a small acreage of soybeans. I have served as president of the Alabama Association of Farmer-Elected Committeemen since 1975 and am now serving as vice president of the National Association of Farmer-Elected Committeemen.

I represent the officers and membership of the National Association of Farmer-Elected Committeemen with 43 organized and active States. We fully expect all 50 States active by January 1980.

Mr. Chairman, the problem of inadequate soil conservation is a very real and an extremely serious one. I am very happy to see you and this subcommittee directing your attention to the problem, and I pledge the support of the National Association of Farmer-Elected Committeemen.

We will furnish all the information needed as determined by the local grassroots ASCS community and county committeemen who are elected by the farmers in their respective communities and counties from all the 3,000 counties and parishes of this great Nation.

Mr. Chairman, in order for the citizens of this Nation to have clean water, adequate diet, and the commodities to export and thus continue to offset the ever-increasing balance of trade deficit and help check inflation, in addition to proper price levels, the men and women who till the soil must have comprehensive conservation legislation.

The basic idea of the Soil Conservation and Domestic Allotment Act of 1936 is sound and as solid as a rock. Until a better system is found, it should be implemented and adequately funded.

Insofar as the delivery of any conservation program, there will never be a better way than through the farmer-elected community and county ASC committees.

The ability to administer programs, determine the feasibility of practices, and cost-share rates as it is today cannot even be closely equated by any other group or agency that can be assembled to that of ASCS-elected community and county committee persons.

These people who live and work on the farm see firsthand what an inch or more rainfall in 1 hour can do to the land. They see the gullies that the water cuts in the remotest part of the field, farm, and community. They also see and learn from their neighbors what the erosion is doing to the streams.

I guarantee the people feel sick inside to see the muddy water running. They know the welfare of their family and future generations of farm people and, indeed, the future of democracy—as seen by the committee system which is the truest form of democracy—and the future of this, the greatest Nation on Earth, is slowly slipping away.

Mr. Chairman, by all yardsticks—the Nation's budget, inflation, purchasing power of the dollar, et cetera—the \$500 million authorized in 1936 would be close to \$30 billion today.

According to my information, EPA is funded in excess of \$6 billion annually today—ACP was the original EPA.

If ACP had been, and was now, adequately funded a great portion of EPA would not be in existence and the Clean Water Act would not have been nearly as necessary.

Farmers have shown they will carry out practices such as cover crops, contour farming, terraces, planting trees, et cetera, if done in partnership with their Government by applying to their county ASC committee for many times over the financial assistance available in many cases.

Although many farmers have left the ASCS office in disgust because of lack of funds, many practices being termed "production" or "short term" versus "conservation" or "long term," they will return if we can enact and fund legislation that rectifies this situation.

Farmers should be treated as well as other businessmen from the standpoint of tax deductions and credits. I see no reason why a terrace system or other major conservation measures should not be eligible for investment credit and a faster writeoff.

The soil is the plant that produces the food, fiber, and forestry products for the Nation, just as GM plants produce trucks, et cetera, and IBM computers.

The idea of a tax on exported agricultural products for a conservation trust fund is a good one. It can work well for conservation and the cost would not be an additional burden for the farmer.

I see no reason, either from a technical or fundamental position, why the market would not function normally, both futures and spot markets, by the adoption of such measures.

Mr. Chairman, we must supplement—not replace—ACP, and the committee system. We pledge our complete cooperation to help your committee accomplish this goal.

Thank you, Mr. Chairman, for allowing me to present this testimony and I will attempt to answer any questions you may have.

Mr. JONES of Tennessee. Thank you.

We will hold the questions until we have heard from Mr. Hundstad.

Do you want to continue, Mr. Hundstad.

Mr. HUNDSTAD. There are a few things, Mr. Chairman, that I would like to say in addition to my prepared remarks.

First, I would like to say that our ACP program has been a tremendous success, as you would witness if you got out in my part of the country, or I guess any other part of the country. I cannot speak about other parts of the country because I am not that well acquainted with those areas.

However, we have a few problems which have been referred to by the other two gentlemen of the panel. The main one is probably the lack of funds year in and year out. There is never really any real knowledge that will have funds.

You will remember that we did not have any funds at all for ACP a few years ago. This discourages our farmers who would like to get into a good sound conservation program. Then all at once there are not any funds. They get away from the idea of thinking about conservation.

Second, Mr. Chairman, our practices seem to change. It has been referred to here by a couple of the speakers. We classify some as production practices and short-term practices, but the seeding of grasses and legumes on the land in my part of the country is very important.

I lived through the "Dirty Thirties," as we refer to them out there. I do not know if other parts of the country experienced this. We could not go out and drive down the road in the middle of the day because you could not see the radiator cap on your old car. You did not dare get on the road. You could hardly get from the house to the barn because we had the soil in the air.

Some of the farmers in my county, when the dust and wind finally subsided, found they could not drive a tractor through the farmland because you would fall into big blowouts where you could bury the house and you would not have seen it. You cannot imagine the devastation that we had. This was undoubtedly true all over the country.

I remember seeing a giant boulder sitting up on a pedestal of some kind where the wind had blown away but the rock held the soil under it until here was this boulder up higher and you had the rest of the soil around it which was blown away. This is the type of situation we had around the country.

Of course, the action of the Domestic Allotment Act and the original Soil Conservation Act put the farmer in partnership with his Federal Government. He has done a tremendous job since then.

I put together a picture to show some of the accomplishments of our ACP program. I know you cannot see it from there, Mr. Chairman, but let me have you take a look at it when you have time. This is in the area where the sands blew very badly.

I would like you to notice the number of trees. This land had no trees at all. This was out in the prairie lands. As you look at this, you will see the stock watering dugouts and making better use of

the grasses. You probably cannot distinguish this on this map, but the use of legumes to stop erosion is there.

I would like you to take a look at it.

Mr. JONES of Tennessee. Yes, let us have a look at that.

Mr. HUNDSTAD. You will see that the program has not been a failure, but it has been a tremendous success. Let us not forget that. Let us see if there is more funding for that.

In conclusion, Mr. Chairman, let me say this. Conservation is not just something that you do today and tomorrow where you accomplish the mission. It is a constantly changing battle. You work at it every year. As the years go on, things change and even your practices change.

However, the farmers are willing and able. With a little assistance from the Federal Government, they will do the job.

I want to thank you again for this opportunity to appear before you. If you have any questions, we will be tickled to death to try to answer them for you.

Mr. JONES of Tennessee. I want to thank you very much.

Mr. Harkin?

Mr. HARKIN. Thank you, Mr. Chairman.

Mr. Hundstad, you talked on page 3 of your prepared statement about this. You talked about the two big problems with ACP. One is lack of money. We are all concerned about that, of course.

You also said a greatly reduced and changing list of practices has discouraged many farmers. I think one of the other witnesses said something about too much power in Washington to decide what is good rather than having local control.

Mr. HUNDSTAD. Yes, sir.

Mr. HARKIN. Let me ask you this.

Is money for irrigation conservation? What do you think? If we take money and put it into irrigation purposes, is that conservation?

Mr. HUNDSTAD. I would think that if it is put into better utilization of the water or better means of delivering with less evaporation or whatever, yes, I would call that conservation.

Mr. HARKIN. I am talking about taking dry land and irrigating it.

Mr. HUNDSTAD. Yes, if you make good use of the water I would think it would be conservation.

Mr. HARKIN. That is conservation, that is, taking land that might be used for grazing or something like that and then going ahead and diverting water either from deep wells or streams and irrigating that through row cropping? That is putting money into conservation?

Mr. HUNDSTAD. If you are improving an irrigation system—

Mr. HARKIN. I am talking about building irrigation systems. Let me give you an easier question.

Let us say that you have some low-lying land which is not draining very well. You have water that sits there. Let us say you would like to put some tile under there to drain it. Is that conservation?

Mr. HUNDSTAD. No. I guess our changing attitudes about drainage come to this. It used to be that there were practices to help farmers drain their land.

No, I do not believe we consider it any longer to be conservation. We recognize the value of wildlife and the value of pools of water to prevent it getting into the streams.

Mr. HARKIN. Excuse me for interrupting.

What we are faced with is this. If we had \$32 billion we would not care. We could fund everything. But we do not have that much money because we go out in our districts and people are talking about balancing the budget and cutting Government spending. We hear that everyday out there. So we try to cut down a bit.

We look at the money that is going into conservation. I have been involved in this in my 5 years here in Congress. All of the money going for the ACP program makes you want to look at how it is being spent.

You begin to say to yourself: "Well, if some of this money is going to drainage, then that means some of the money is not going to terracing." If you have some money that is providing for new irrigation ditches, then that is money that is not going for seeding purposes or less money for trees.

In the State of Iowa, for example, I began looking at this 4½ years ago. In the southwestern part of the State where I am from, we farm a lot of hills down there. We have a great need for terraces down there. The local committees down there were hardly getting any money for terraces. Up in the northern part of the State where they have all flat land, they were getting all kinds of money for drainage.

I am asking you this. We are trying to spend taxpayers' dollars and we are committed to conservation. You are a farmer-elected committeeman. Where do you want that money to go?

Do you want it to be spread all around for all these other things or should we start concentrating it a bit more? We could concentrate on the good conservation practices where it is really needed. We have 10 times more running off in my area than they do in northern Iowa.

Mr. HUNDSTAD. First of all, I was not aware that any money any longer was being spent for drainage.

Mr. HARKIN. No, the subcommittee stopped it. It was my amendment that came through here. I was greatly taken to task at one of the national meetings for my amendment that came through here about 3 years ago on that very thing. Sure, it is stopped. But I can tell you it was not a very pleasant task for me to try to stop it.

Mr. HUNDSTAD. I can only respond to that by saying this. I would defend the rights of the farmer to do whatever he wanted to do with his land. I am not asking for you to spend money in draining these potholes.

I think farmers, as well as other people of the country, have learned the value of the prairie pothole as we call them in our area.

However, I would defend his right to make a living on the land that he pays taxes on. If he does it on his own, then it is all right. But I agree I do not think we should be putting Federal money into drainage.

Mr. HARKIN. Beyond that let me say this. When we operate with a limited budget, then we have to strain, beg, and plead to get a little bit of money in ACP. We are going to have to make choices. We cannot fund everything, so we have to put it in those areas where conservation is the most needed.

Mr. HUNDSTAD. Who do you think is the most capable? I realize I am not the one who is supposed to question, but let me say it this

I believe the farmer-elected committeemen, who are actually farmers themselves and who represent the farmers in the country, have knowledge of what is necessary in their own county. I would not attempt to tell Iowa or any other State what was good conservation in their State because I really do not know. However, I feel that probably the county committee in this particular county has a fair knowledge of what the conservation problems are and could put the money in a good spot.

Mr. HARKIN. Yes. I have counties in my district where they do not need any terraces at all. I can tell you right now that the committeemen would not fund the terrace because it is flat. But they would like to put a lot of money into liming.

I am asking you again—should we put the money into liming in county “A” and over here we have county “B” where the mud is running off the hills because they do not have terraces?

Mr. HUNDSTAD. Again, we do not use liming in my State, but if it is an area that takes liming in order to get a stand of legumes, I can assure you that legumes and grasses can do a lot to prevent erosion.

We, in our State, planted a lot of grasses and legumes. The wind does not blow the soil away when we have the grass and legumes out there.

You are talking about liming. If it is necessary, I presume the establishment of the legumes might help. In my county it is not. We do not use lime.

Mr. HARKIN. But I am asking you this. You have county “A” and county “B”. We have \$100. County “A” needs liming and county “B” needs terracing. Where would you want to spend the \$100? Or, do you want to split it 50-50?

Mr. HUNDSTAD. I guess I would be more inclined to go that way. I think one conservation measure is probably as important to an area as another one is to another area.

Mr. HARKIN. But we have to look at it from a national prospective. You are telling me that you will split that money up and you will give half of it for liming just because that one county does not have terraces and you would downplay the importance in the other county that has hills and needs terraces?

Mr. HUNDSTAD. What I am saying, sir, is this. Each county probably has a conservation need. If the conservation need is great in one county and if it depends on liming to get the conservation problem solved, then, yes.

Mr. HARKIN. But we do not have enough money to give to every county in this country to fulfill the kind of practices that they want, whether it is tiling or liming or irrigation. We simply do not have money. We have to make those decisions here.

You are saying that the farmers out there have a better idea. Sure they do. But we are funding the program. We have to make the decision on the best places where the money is to go.

Mr. LEAGUE. Mr. Harkin, let me respond with regard to my area.

You talked about building terraces. If you build a terrace the water has to go somewhere from the terrace so I prefer to say that a terrace system would invariably have to have drainage.

Mr. HARKIN. Standing pipes and tiling.

Mr. LEAGUE. I am not talking about draining a swamp. I am talking about a place I have right now. Twenty years ago the water was up to my shoulders. Now it is ankle deep or a little bit better. This is caused by topsoil erosion.

If that land had been taken care of by terracing or cover crops or grassed waterways, then we would not have that situation. As the water comes off the hill by the terrace it goes into a drainage ditch or a waterway. It is properly sodded and taken care of.

Then, you will not have the sediment running off into the stream. That is the type of drainage I am talking about. I am not talking about draining a swamp or any irrigation. I am talking about taking care of the soil that is already there.

Mr. HARKIN. I have no problem with that at all.

Mr. LEAGUE. You could have a ditch or waterway that maybe goes across the farm. This is what I term drainage. This is not a terrace by itself.

I just wanted to clarify that point and see if we were on the same harmonious level in that supposition.

Mr. HARKIN. I was talking about that kind of drainage, geared not so much for conservation practices, but for production. You seemed to be concerned about using the words "production practices."

When I have a farm that is level, low-lying, and water sits and does not drain and I put in underground tiling to drain it to a close-by stream, ditch, or a river, then I do not care how you cut it, I am doing it for one reason—to increase my production. That is the only reason I am doing it.

If we are funding that out of ACP money, out of conservation money, as a conservation practice, then it ought not be allowed. We do not allow it any longer, by the way. These are some of the problems we went through to get that done.

Mr. LEAGUE. Yes, I will buy that, Mr. Harkin. But we are talking about other things also. We need cover crops and this kind of thing.

In the southeastern area of the country we have 50-plus inches of rain in my area. Years ago when I was a little fellow and when this got started we took a drill with a mule and we put two rows of veitch in each cotton area.

The following spring we came up with this. Of course, we did this with ACP support. We had assistance for the veitch seed. Then the next year we would follow that with corn. The following year we came in with cotton. But it protected the soil during the freeze, thaw, and rain period.

It is not like it is in Iowa. It freezes tonight and gets down to 15 degrees, let us say. The land spews up. Then tomorrow the sun comes out and it goes up to 50 degrees and it thaws. Then maybe you have a little front coming through and it washes the soil right away. You need some cover there or a terrace system to at least limit that.

Also, you were talking about the flat land. I have heard about a 2-degree slope. I doubt that there is much land that does not have a 2-degree slope, but you will have an awful lot, or rather, some washing there, depending on the crop and especially with soybeans. The legume plant makes that soil extremely viable and, therefore, susceptible to erosion.

Mr. HARKIN. My point is that when we operate with the constraint of budgets then we cannot pay for everything. We have to look at what is the biggest threat to conservation right now. Where are those areas where soil erosion is the worst? Where is the money really needed?

You always are going to have a little bit of erosion. I do not care what you do. You will always have a little. You can have the best practices of the world, and you will still have a little erosion just by the way you till the soil. When we operate under tight budgets and we see the loss of topsoil in this country, it seems to me that we have to target in and put that money someplace where it is worst.

Mr. LEAGUE. Yes. I agree that priorities ought to be established. We have ACP developmental meetings in our counties. We have it on State levels as well. I am always invited to my State ACP developmental conference. We have extension, SCS, and other people there who are interested in conservation. We try to establish priorities utilizing the relatively small amount. I realize that you and the Members of the House and the Senate have fought diligently. We appreciate, for example, that \$190 million. But we need so much more to do the job. Again, I think we appreciate the fact that you work hard for that.

Mr. HARKIN. I like your suggestions on the tax-exempt bonds or something like that. It is a good suggestion. I would like to follow that up. Those are good suggestions.

Thank you, Mr. Chairman.

Mr. JONES of Tennessee. Gentlemen, we have a vote on the floor. We have to recess briefly. We thank you for your testimony.

After our recess we will have as our witness Mr. Michael Strother.
[Recess taken.]

Mr. JONES of Tennessee. The subcommittee will resume its sitting.

We will call now Mr. Michael Strother, Land Improvement Contractors of America.

STATEMENT OF MICHAEL E. STROTHER, WASHINGTON REPRESENTATIVE, LAND IMPROVEMENT CONTRACTORS OF AMERICA

Mr. STROTHER. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee, my name is Michael Strother. I am the Washington representative for the Land Improvement Contractors of America and I am appearing today in behalf of the nearly 4,000 members of that organization. LICA contractors have for some years served as the implementing arm of the ACP, and Great Plains conservation program. Therefore, we greatly appreciate this opportunity to present some of our views on the country's soil and water conservation needs.

To the members of our organization there are two basic questions relating to soil and water conservation: One, is there a problem? And, two, if so, how do we solve it?

We have done our best to try to answer these two questions. I would like to share our findings with the committee today.

First, is there a problem?

We went to the ASCS, the SCS, and the EPA for answers to this question. Here is what we found.

Our conservation programs are addressing only 1 percent of recognized needs.

Five to nine tons per acre of topsoil erode from our farmlands every year, while only 4.3 tons is allowable to maintain productivity.

At this rate, soil scientists predict that our topsoil could be depleted in as soon as 160 years. Crop production will begin to fall sooner.

This eroding soil enters out waterways, and according to EPA, creates over 50 percent of the daily loading factor—the single worst cause of water pollution.

We submit to this subcommittee our conclusion that there is a “clear and present danger” threatening both our water supplies and our food production base.

That brings me to the second question posed earlier:

Second, how do we solve the problem?

Three currently available programs offer a wide range of solutions to the problem: The agricultural conservation program, the Great Plains conservation program, and the 208—rural clean water program.

They are different programs addressing distinct problems. ACP has flexibility and can reflect local needs. Great Plains is directed more toward long-term solutions. Rural clean water can tackle area-wide water pollution problems.

There is a need for each. And yet, there is a greater need.

The soil loss problem is approaching proportion of the Dust Bowl days, although it is not as evident in the skies as it was at the time. The figures so indicate, and so should the solution.

ACP, for example, was originally funded at \$500 million. It has done a tremendous job given the funds available.

I would like to ask that the enclosed tabulation be inserted in the record at this time. These are the ACP conservation accomplishments from 1936 to 1978.

Mr. JONES of Tennessee. Without objection, so ordered.

[The above referred to material follows:]

ACP CONSERVATION ACCOMPLISHMENTS, 1936-78 (FROM CONGRESSIONAL RECORD, JUNE 19, 1979)

[In acres]

Practice	Extent under 1978 program (preliminary)	Total accom- plishments 1936-78
Water impoundment reservoirs constructed to reduce erosion, distribute grazing, conserve vegetative cover and wildlife, or provide fire protection and other agricultural uses.....	¹ 26, 000	2, 417, 000
Terracing constructed to reduce erosion, conserve water, or prevent or abate pollution.....	434, 000	35, 777, 000
Stripcropping systems established to reduce wind or water erosion or to prevent or abate pollution.....	172, 000	114, 902, 000
Trees or shrubs planted for forestry purposes, erosion control or environmental enhancement.....	285, 000	6, 511, 000
Forest tree stands improved for forestry purposes or environmental enhancement....	43, 000	4, 799, 000
Wildlife conservation.....	174, 000	² 14, 411, 000
Sediment pollution-abatement structures or runoff control measures.....	1, 230, 000	³ 14, 224, 000

¹ Structures.

² From 1962 with certain data estimated.

³ From 1970.

Mr. STROTHER. But funds have steadily dwindled over the years, and the problem has steadily worsened. Requests for ACP cost-share money are running 5 to 10 times higher than the amounts available.

We need a massive, coordinated attack on soil erosion that involves the landowner, the Government, and our major corporations. Everyone depends on the soil. It is in everyone's interest to save it.

The Lands Improvement Contractors of America would like to recommend the establishment of a National Endowment for Public Conservation. Such an agency could be patterned after a number of existing ones.

One, a National Foundation on the Arts, which is a Government agency. We have attached enabling legislation to this statement for the endowment for the arts.

Mr. JONES of Tennessee. Without objection, that will be placed in the committee file.

Mr. STROTHER. Two, a Corporation for Public Broadcasting, which is a quasi-governmental body;

Three, a rural telephone bank, which is a quasi-governmental revolving fund; and

Four, a highway trust fund which is a user-tax-supported Government program.

From our perspective, the important ingredients might include:

One, Federal funding earmarked through existing conservation programs, such as ACP, Great Plains, and rural clean water.

Two, higher cost-share rates like those in the Federal highway program—90 percent; and EPA's water treatment grants—85 percent.

Three, broad tax incentives to landowners to encourage their participation.

Four, tax-exempt grants donated by major corporations.

We feel this would be an important feature. Here, Mr. Chairman, we have used as an example the Foundation for Public Broadcasting where major corporations may tax deductible grants and in their own way get good publicity for helping the public interest. This money is mixed with public money, either as matching grants or full grants to help the arts. This could be done in the same way in conservation, we feel.

Last, a governing board with members drawn from landowners, contractors, corporations, ASCS, and SCS. The telephone bank board is a good example.

Major steps of this nature are necessary because the conservation work simply is not getting done. The landowners are often not in a financial position to install large-scale practices on their own. Terraces, dams, and waterways are major capital expenditures for a farmer today. Cost-share payments simply do not cover a substantial part of the cost.

The return on his investment is often small, or spread out over many years. The life of such structures ranges from 10 to 20 years. The return on the investment may take as long. More help is needed to get the job done.

There is an additional situation that has a bearing on our conservation programs I would like to bring to the subcommittee's attention.

LICA contractors grew up in response to a need for conservation operators who could tackle the physical task of saving our soil and water resources. As private contractors in a free enterprise system, they expect to compete with each other. Traditionally, this has kept costs down.

They are disturbed, however, when they have to compete against agencies of State and local governments that have gone into the contracting business. Currently, in a number of States, divisions of those State governments have purchased equipment, hired operators, and are actually bidding on Federal projects against private contractors. They have the distinct advantage of being supported by public taxes. They pay no income taxes, sales taxes, or use taxes. Their competitive edge is thus formidable.

We need your help to correct this situation. We urge the committee, when reauthorizing both the Great Plains conservation program and the agricultural conservation program, to prohibit tax-supported bodies from competing with private contractors under federally sponsored conservation programs.

In conclusion, the need for more conservation is well documented. Yet, the flow of tax dollars to conservation programs has dwindled over the last 30 years to a point of near ineffectiveness. New dollars and new directions are needed. Our organization strongly supports the concept of a tax-exempt agency that embraces both existing Federal conservation programs and a variety of tax incentives to stimulate private capital.

In short, America needs some form of a national endowment for public conservation.

Thank you. That concludes my statement.

Mr. JONES of Tennessee. Thank you, Mr. Strother.

In my opinion, your testimony contains a lot of good thoughts and wisdom for this subcommittee to explore and work on.

I must admit that I share with you the majority of the recommendations that you are making here insofar as the problems go and also insofar as new participation and new programs are concerned.

I like this testimony very much. I appreciate the time you have taken to come before us. Mr. Daschle?

Mr. DASCHLE. Thank you, Mr. Chairman.

Mr. Chairman, I want to echo your comments about the statement just presented to the subcommittee. I think it is an excellent statement. Let me pursue a couple of questions.

No. 1, your conclusions seem to be that really what we need are more funds, that is, if we provide more financial assistance that basically will eliminate the problem. However, I am wondering about the experience you had with our current programs. Dollar for dollar, do you believe that we are getting the value out of them that we should, given the facts that you have presented in the first part of your testimony? For example, there are the erosion problems that we are facing today.

Mr. STROTHER. I agree with you. There are two sides of the coin. They appear not to go together sometimes.

However, from talking with our members it appears that the cost-sharing money does do a lot of good. It stimulates the farmer to do conservation that he would not normally do.

By the time it is split up among 50 States and then into the counties, there is little left to stimulate, particularly as everybody knows with the rate of inflation, it is out there, too.

The cost of putting the programs on the ground is skyrocketing while the cost-sharing money has not moved off center in 15 or 20 years.

Therefore, in effect, by keeping the program at the same level in terms of ACP, the incentive is dwindling every year. The faster inflation rises, the faster the incentive dwindles.

Mr. DASCHLE. One of the characteristics of the Great Plains program, of course, is that it is a targeted program. However, in being targeted one of the problems I think we would have is outreach and fulfilling that need for information which there appears to be. I have talked with people in South Dakota who still are not familiar with the program.

I am wondering if you see that as a problem. And, if you do, how do you think we might be better able to rectify that situation. How would we get out to those areas?

Mr. STROTHER. There are two parts to that question. In terms of Great Plains not spreading any faster than it does, I think part of the problem is that those who do know about it seem to be reluctant to tie the land up on a long-term contract. He is more reluctant to do that than he would be on a shorter term.

Although it is necessary to do, I think he is always going to be more reluctant because he has less choice over that many years as to what he is going to do with his land.

On the other side of the coin, I suppose we need a broader information network to bring this to the people. I should think the mass media would be the obvious channel.

Again, by using the resources of our major corporations I should think that we could reach farther faster with their help. If they are getting something in return out of their contribution, if it is tax-deductible, then they might go along. The Corporation for Public Broadcasting, for example, with the Corporation's help, might produce a special program in the public interest. They would get some credit for it by having their name on it as being the ones who funded it.

Today public relations being what it is, that is an important point to keep in mind. That is a whole area that is now untapped that we might reach out to.

Mr. DASCHLE. Again, Mr. Strother, I am very impressed with your testimony and I thank you.

Thank you, Mr. Chairman.

Mr. JONES of Tennessee. Mr. Strother, I think you recognize the same problem that we and the majority of the witnesses today have recognized; that is, that as far as going to the Congress for additional moneys, that is not an easy job any more. We have tried that.

If you will recall, the subcommittee started out with a budget for ACP of \$250 million. We finally got cut to \$190 million. We were sort of glad that we could hold to that.

The thing about it is this. There are new ideas and new incentives. These are the things that we are going to have to be able to sell, not only to the public, but to the landowner. That is what you are saying here today.

Mr. STROTHER. Very definitely. The person takes a dim view sometimes of Government programs.

Mr. JONES of Tennessee. Certainly. Evidently your organization has done a lot in cooperating with ACP and on the Great Plains program. Are you in a position to help the subcommittee with a program of that sort should we pursue it?

Mr. STROTHER. Definitely, Mr. Chairman. We have active chapters in 34 States. Many of the State chapters are fully staffed. They reach out across their own States with their own membership promotion programs so we have something of a network that could be well put at your disposal.

Mr. JONES of Tennessee. I think the majority of this subcommittee realize this is the problem we have. I am not sure everybody does, but I think the majority do. We realize that we are going to have to go somewhere else and do it in some other way in order to get some extra funds to do these jobs. They must be accomplished somehow. We are running into more and more problems every day. I, for one, favor trying some method other than coming to the public till.

Mr. DASCHLE. Mr. Chairman, I share your view. Under these circumstances we just do not have it. It is going to be extremely difficult to get it. I guess that is why I was impressed with Mr. Strother's suggestions. This gives us some other opportunities to pursue.

Mr. JONES of Tennessee. Certainly.

Mr. Strother, we thank you for your testimony. We will be calling on you.

Our next witness is an old friend of ours who has been here many, many times. We are always glad to see him.

We welcome Neil Sampson, National Association of Conservation Districts.

STATEMENT OF NEIL SAMPSON, EXECUTIVE VICE PRESIDENT, NATIONAL ASSOCIATION OF CONSERVATION DISTRICTS

Mr. SAMPSON. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee, we appreciate the opportunity to testify. I am Neil Sampson, executive vice president of the National Association of Conservation Districts. NACD, as we are commonly known, represents the Nation's 2,950 conservation districts, the 50 State associations of conservation districts, and the 17,000 conservation district officials that serve them.

The topics you address today are of primary concern to every conservation district program in America. It is a pleasure to bring some of the views of conservation district officials to you. You were kind enough to hear some of our folks from the Great Plains this morning on these particular topics.

I would like to spend a few moments responding to what I consider to be a very important and interesting challenge that this subcommittee set up with these hearings. This is some of the new directions that we might think about.

I would like to commend Mr. Strother for that statement that you just heard. I think that is the kind of innovative thinking that we need to put into the mix.

This Nation has a soil conservation program that is unmatched anywhere in the world. We have many problems, certainly. Our people,

with their high levels of economic activity and environmental expectations, create intense pressures on the land base. These pressures will continue to increase, and, as they do, our national conservation effort must become more intensive as well. We must now allow the exploration or ruination of our vital land and water resources, for that kind of profit-taking today means certain bankruptcy in the future.

Our national effort is made up of many parts, and we would urge the subcommittee to remember all those parts as you consider adjustments or additions to some of them. The majority of the money spent to conserve soil and water on the private productive lands of the Nation is spent by private citizens, and is money that comes out of the operating capital of their private businesses.

On the public side, the Federal programs have always been the leadership role, and have provided the majority of the public money. But recently that balance has been shifting. Several States now have State-funded conservation cost-sharing programs, and most States fund some aspect of soil conservation work such as technical assistance, soil survey, snow survey, or watershed planning. There are a few county-funded cost-sharing programs and many instances of county funds being used to support technical assistance and soil surveys.

In other words, we have a broad national effort. You are considering improvements in the Federal portion of that effort. We commend you for this. Those improvements are needed. And one major improvement is this: The Federal effort needs to encourage, rather than discourage, the creation of new input from the States and localities. Unfortunately, this has not always been the case.

There have been too many instances where USDA agencies have viewed State and county conservation cost-sharing programs as unwelcome competitors rather than complementary efforts. This has not helped encourage State and local input, and has, we fear, dampened it in some instances.

Just this past year, the President's budget threatened to cut dollars out of programs such as soil survey and snow survey on the basis that States were willing to contribute dollars to accelerate those efforts. The signal to the States was clear: If you put dollars into these programs, we will take the Federal dollars out.

That grievous error, had the Congress allowed it to occur, would have spelled the end of much State and local input into soil conservation efforts. Fortunately, the Congress appears to have reversed that policy proposal.

But we still need to be very cautious in any new programs that are created. We urge you to do everything possible to encourage the contribution of private citizens, State and local governments, corporations, and others. It is easy to inadvertently turn those people off, and every time that happens, our national effort suffers.

The Federal soil conservation effort, as it has evolved to date, consists of four main areas: research, education and information, technical assistance, and economic incentives. Under the headings of economic incentives, which is the main focus of this hearing, we could list the soil and water conservation loans of Farmers Home Administration, the cost-sharing programs of Agricultural Stabilization and Conservation Service, such as the agricultural conservation program, the water bank program, and the forestry incentives program; and the

cost-sharing programs administered by Soil Conservation Service, including the Great Plains conservation program and the watershed program.

If one makes an outline such as this, two points emerge. One is that cost-sharing programs, even though they get a lion's share of the political and budgetary attention, are only part of the total conservation effort. The other point is that most of the emphasis is on helping farmers meet the cash outlay required to build or install conservation practices.

This is important in encouraging the installation of those kinds of measures, but it does not help with many of the subsequent expenses of keeping the system operating on the land. In other words, our cost sharing is aimed at building things, not maintaining complete conservation systems.

But cost sharing the way we have been doing it does not help keep those measures installed, operated, and managed properly down through the years. Sometimes that is just as important. We may be helping build terraces, but we look around and discover that the tractors have gotten three times as large out in that country. They are driving up and down the hill and over the terraces and wiping them out within 2 or 3 years.

The cost share may be a more efficient irrigation system only to discover the real problem is that the farmer can no longer find a hired man that can go out there and spend the time it takes to irrigate it properly.

The distinction is becoming more and more important as agriculture technology grows more sophisticated and farm machinery gets faster and larger. It may not be the cost of installing a conservation practice that is the major problem today. It may instead be the added cost of farming in conservation patterns or the income forgone because some land is idled by a conservation practice. We have seen many conservation systems destroyed in recent years as the economics of farm operation have pushed farmers toward more straight-row, large-field, high-speed production systems.

Consequently, a challenge we face is to find economic incentives that supplement cost sharing and help encourage the proper maintenance and upkeep of conservation systems once they are on the land.

The proper conservation of America's land and water is largely dependent on the ability of private resource users to economically carry out conservation measures within the context of their private business operations.

There are many programs conducted by the Federal Government that directly affect the economic profitability of a farm. In the past, many of these programs have had the effect of penalizing those producers who voluntarily applied proper conservation to their lands.

The Nation needs a new policy that will provide economic incentives rather than economic penalties to conservation district operators in order to achieve the maximum private, voluntary effort in resource conservation.

There are several general principles that should be part of any program for conservation incentives. These include:

First, NACD believes that every possible Federal program—and certainly those of USDA—should provide encouragement and incentives for proper use and conservation of private lands.

We give conservation lip service, but too often the programs are set up such that folks are encouraged through the economic incentives that are created to plow up their own lands or to abandon their conservation systems. As we work toward this goal, the amount of incentive in each program need not be great, for the total effect of all programs will affect the landowner and encourage conservation.

Second, we believe that the existence of a conservation system on the land should earn the landowner an incentive, but should not be a requirement for program participation.

That is a fairly distinct difference. It is different from the cross-compliance idea that was brought this morning, for instance, by Assistant Secretary Cutler.

Incentive levels in programs will help move people toward conservation accomplishments. This will increase the workload for the programs that deliver conservation services, but at a realistic pace that will result in effective conservation on the land.

NACD opposes the suggestion made by some in Congress and the administration that there should be requirements for cross-compliance to force farmers to install conservation practices. This sort of mandatory program will not be accepted by landowners. Besides, it is impractical.

If major national programs suddenly required all participants to install conservation systems, our capability to help landowners install conservation work would be swamped. Farmers and ranchers would then have legitimate reason to call the requirements unreasonable, and get them removed. Little would be gained, except the further alienation of rural people against Government and its ability to cope with problems.

Third and finally, we believe that there should be a distinction between the agencies that administer Federal programs and the agency that measures the adequacy of conservation systems.

The adequacy of the conservation system is, in large measure, a technical determination. Conservation districts around the country are established under State law to deal with that issue. We think they should deal with it.

On the other hand, there are many agencies that are administering Federal programs that we hope will try to support good conservation wherever it is found. But we think that is a different issue. We believe that conservation districts are the logical unit to measure the adequacy of conservation systems on the land.

We think there are reasonable, workable ways to establish a system of conservation incentives, and to keep it in a voluntary mode that will be both acceptable and effective.

We have proposed such a program, one that has become widely labeled as the "green ticket" idea, and has started a great deal of discussion. Much of the discussion has missed the mark, as people have confused NSCD's green ticket idea with the administration's mandatory cross-compliance proposals.

Simply put, the green ticket idea rests on the capability of the local conservation district, operating under State law, with the technical assistance of the Soil Conservation Service, to certify that a land user is carrying out an adequate conservation program on the land.

In the way, conservation districts could function under existing laws and capability, and provide a vital service to any Federal program that provides conservation incentives.

A Federal agency administering a program that provides incentive bonuses to legitimate conservation farmers or ranchers must know who is and who is not carrying out a conservation program on the land. That is an important, and difficult, distinction to make.

It is difficult because of the need for any conservation management system to relate to the specific soil and water conditions on a given piece of land, in combination with the plant, animal, and tilage management systems chosen by the land user. In other words, adequate soil and water conservation management systems must be developed onsite, for each farm, ranch, or forestry management unit.

In addition to being properly designed, each conservation system must be properly installed, then managed and maintained through the seasonal cycles that make up the agricultural year. Conservation care of the land requires both adequate conservation practices on the land, and continued commitment, investment, and stewardship from the land user.

The green ticket program is designed to identify and recognize those conservation managers. Managed by a conservation district, the green ticket program will simply do one job: Separate the land users who are doing an adequate conservation job from those who are not.

Those who are will be issued an annual certificate, the "green ticket," indicating their status as certified conservation managers. Such a distinction is possible within both the legal authorities and the functional capability of conservation districts.

For all the surface appeal such an idea may have, there are problems of implementation that should not be overlooked. A conservation district cannot set arbitrary standards, no matter how local in nature, and then select those people who do and do not meet them. The district must base green ticket decisions on a standard of performance that is easily and credible measurable. The best chance of that appears to be through the use of individual agreements between the land user and the district.

Under such a program, the land user would enter into an agreement with the district that is specific to his individual land and water situation. By voluntarily signing the agreement, the landowner would certify that the conservation system proposed in the agreement was both feasible and reasonable.

The district would seek the technical certification of the Soil Conservation Service to assure that the system proposed in the agreement would, in fact, result in an adequate level of soil and water management. If other technical certifications were needed—such as in forest management or wildlife habitat management—the district would seek that certification from the appropriate technical agency. Once agreed to by all parties, the agreement would become the basis for the issuance or nonissuance of the green ticket.

In this way, the district could base its decision to issue or not to issue a green ticket to the land user on the single question: Is the land user keeping the agreement or not?

While this may sound simple, it is not. Most districts serve from several hundred to several thousand land users. Working out agreements with any significant percentage of them will take a great deal of time. Most of the agreements will need to be based on a conservation plan, developed with the aid of a trained soil conservationist. Many such plans are already in existence, but many would have to be developed as well.

Once the agreement has been signed, it will be important for the district to be able to ascertain that the land user is continuing to manage the conservation system according to the agreement. For this reason, it has been suggested that the green ticket be issued annually, sometime near the end of the calendar year, on the basis of the management carried out during the growth and production season.

It could be done as follows:

One, each land user with a green ticket agreement would be sent a copy of the original agreement document, along with a response form, near the end of the year. The response form would ask the land user to certify that the agreement had, in fact, been followed.

Two, of the land users certifying compliance with the agreement, the district could spot check a random sample to assure that the conservation agreement was being followed.

Three, all land users certifying compliance—and not challenged by the district as a result of a spot check—would be issued a green ticket for the current year. This would certify that the land user was, in fact, following a conservation management agreement with the conservation district.

Land users must have the flexibility to change their conservation systems as agricultural technology or economic conditions shift. Consequently, a place on the response form should be provided so that the land user can request that the district send a technician to help update or revise his conservation agreement.

In that way, a land user might say that the agreement had been maintained in the past year, but would need to be changed before the next season. This would provide him with flexibility, and also provide the district with a means of identifying and scheduling technical assistance workloads.

It will be impossible for every district to agree with every land user on the green ticket decision. Some land users will refuse to sign an agreement on the basis that the district requirements are unreasonable. They will then request the district to change its standards in order that they might qualify for green ticket incentives.

Another type of appeal may arise when a district spot check reveals that a land user has not, in fact, kept the agreement as certified. Here, it will be the land user's claims against the findings of the district or agency technician that carried out the spot check.

Another type of appeal may arise if a member of the public challenges a district's green ticket program on the grounds that land users are being issued green tickets without being required to maintain adequate conservation management systems on their land.

In all of these situations, the district will need an established procedure to assure fairness and due process. Districts operate under State law, and are assisted by State soil conservation agencies established under that same law.

Some State laws already have an established administrative appeals process that districts could use. Where needed, an appropriate appeals procedure could be added to each State's law that would allow for:

One, a public hearing, resulting in findings of fact, by the district.

Two, an appeals procedure wherein the State soil conservation agency would review the district's decision on its merits.

Three, a judicial appeal from the State agency's decision.

NACSD believes that the establishment of such a green ticket program in the Nation's conservation districts is a feasible goal. It will take awhile for districts to establish the working capability to carry out the job, but that effort is underway right now.

If we can utilize the next year or two of effort in the Resources Conservation Act to provide some funds for testing these new ways of doing business, it seems reasonable that there can be a functioning nationwide program within the next 5 years. That may seem a long time to many, but if we can accomplish this major shift in the emphasis of national conservation policy in that time, it will be a significant accomplishment.

In order to make the green ticket program work, national programs will have to include some incentives that are attractive to conservation farmers. Those incentives, and the programs that deliver them, should not be operated by conservation districts, of course, but by the Federal agencies themselves.

These could include some incentives in national farm programs, but the idea should be approached far more broadly. For example, there is a good argument for an income tax credit based on conservation.

Land users who meet the green ticket criteria could attach a copy of their green ticket certificate to their tax return as proof that the investments made and costs incurred were part of achieving a recognized conservation goal. They could then claim a tax credit based on the amount of costs incurred or income foregone, under guidelines that could be established by Congress and administered by USDA and IRS.

There is no reason why State and local tax credits should not be considered as well, and some States are already looking at legislation that would accomplish this goal. Local property taxes are a direct, unavoidable cost that, if reduced, would provide an incentive to virtually every land user.

Since conservation districts are created of State law, and since local taxing authorities are created by State law, there is a direct connection in the green ticket concept to elevate the role of State and local government in the whole soil conservation arena.

Any Federal program established should have as one of its goals the encouragement and enhancement of State and local conservation program input. Without such a thrust, Federal programs tend to ignore or discourage these other efforts, and the Nation cannot afford that.

The green ticket idea has been presented in detail so that debate could continue on the specifics of such an approach, but we should

turn our attention back to the larger questions of how to view a new look at the whole soil and water conservation program.

But in order for the green ticket to work, national programs are going to have to include some kind of incentives that are attractive to conservation farmers. Those incentives can be a pretty broad range of things. There could be some national farm programs, of course, but we could look at it more broadly.

For example, you have talked today about a tax credit based on conservation. As I stated before, landowners who meet the criteria of having a good conservation system could attach a copy of their certification of their green ticket, so to speak, from the district, to their tax return as proof of, what they were doing did, in fact, meet standards and was, in fact, a conservation system. They could then claim a tax credit based on the amount of costs incurred or income forgone or however we could get IRS and USDA to work those details out. I think it becomes a matter of being innovative and being a little inventive as we look at this.

Often it is not the costs that the farmer incurs, but it is income that he forgoes that is quite an economic problem. We got into a test on water quality on a place in Indiana and discovered that the practice that kept the water the cleanest of all was to have a rod of grass or other filler strip planted right alongside the stream. The effect, of course, was to take the sediment out just before the water hit the stream. Of all the practices we used, that was the one that did the most for cleaning up the water.

It did not cost much to put that grass in. What it cost was to take a rod width of Indiana cornland and have it growing grass instead of corn. That was a considerable cost to that landowner. He forwent a lot of income as a result. That may have been where we were delinquent in not having some incentive for him.

But I think there is no reason why State and local tax credits could not be considered as well. I think the property tax right now might be the most immediate thing that faces a lot of agricultural producers. We have two States now that are considering tampering with that mechanism, which is under State legislation, on the basis of a conservation treatment.

We have 40-some States that adjust taxing on the basis of agricultural land use in some attempts to do agricultural land retention. That has not proven to be very effective in keeping agricultural land intact, but it has been a fairly effective tax device.

All we are saying is that there is no reason why we could not look to not only the agricultural use, but the proper conservation of those lands as a way of achieving tax credits. That is a matter that I think State legislatures around the country are going to need to look at more and more.

One idea that seems to be emerging from USDA's Resources Conservation Act, RCA, study merits discussion, and I would like to explore it with you for a few moments.

For lack of a better name, we call it the "base-plus" concept. Under the "base plus" concept, we first must accept the idea that there is some kind of conservation program needed in every locality in America. In some areas, serious problems of sheet and rail erosion exist on cropland. Other areas have wind erosion, while others may have water pollution

as the major problem. Still other localities may have soil erosion that is not serious by national standards.

There the soil and water resource problems may be associated with wetlands, forests, rangelands, or the many problems created by rapid urbanization. In other words, every locality needs a soil and water conservation program, but those programs do not need to be the same size and intensity, or even the same type.

What is needed, however, is a base program—one that is in effect everywhere. We think the elements of that program are clear—and mostly in place. They are:

One, an effective soil conservation district. With few exceptions, every county in America is now covered by conservation districts. Areas not covered are eligible, in every instance, if local residents desire to establish a district under State law.

These districts can carry out functions that Federal agencies cannot, such as the setting of local priorities, the development of local land use programs, and the coordination or administration of local, State, or federally funded programs.

Two, adequate research, education, and information programs. The programs are in place. Their adequacy is in dispute, particularly in recent years as inflation and Federal budget priority shifting has taken a heavy toll.

Three, adequate technical assistance for land users. This is the main mission of the Soil Conservation Service, but in recent years there has been a steady decline in SCS field personnel.

In many regions, this is seen by conservation districts as the major weakness in the conservation program. People on the land do not carry out conservation systems unless they understand the need for them, how to install them, and how to maintain and operate them. With every system needing to be tailored to an individual piece of land and an individual management system, technical assistance is critical.

Four, adequate economic incentives. This should include the agricultural conservation program, funded sufficiently to make realistic levels of cost sharing available in each county.

This program has been funded at around \$100 million to \$200 million for many years, while the purchasing power of the dollar has drastically diminished. Consequently, the program is seriously underfunded at this time. Those need to be available everywhere. They need to do different things in different places. That needs to be what we consider to be our base program.

It seems to be that it is on top of that base that you look at areas to target. The Great Plains conservation program looks at the Great Plains. It is a 10-State area of a very different kind of climate, with very different kinds of hazards and problems. It tackles it in a very specific way.

The watershed program that has been active in your area, Mr. Jones, is another example of where we can go into a hydrologic unit. Because it has very specific problems, we can deal with it in a very special manner.

The forestry incentives program and the water bank program administered by SCS are other examples where we have targeted in on very specific concerns.

In addition to ACP, however, there needs to also be the conservation incentives approach discussed under the green ticket label. This would help take some of the pressure off the ACP money, and that program could concentrate solely on the major conservation practices requiring significant investments to install, but providing little or no private return on that investment. In other words, ACP cost-sharing and green ticket incentives should be complementary and, taken together, could make an effective set of economic incentives.

In addition to these "base" programs, Congress should then consider other approaches as "plus" programs. These "plus" programs would target national efforts toward high priority concerns or special problems. Many of them are already in place; others need to be considered.

For example, both the water bank program and the forestry incentives program should be viewed as "plus" programs. They apply only in certain areas, and they address specific problems.

The Public Law 566 watershed program is much the same. It addresses a wider spectrum of problems, but can be focused on specific areas where severe problems require concerted attention.

The rural clean water program, if it is funded, should be viewed in the same way. It should be focused on those areas where water pollution from agricultural runoff is most severe. As we now know, there are many such areas, but they make up a very, very small percentage of the total agricultural land.

In addition, we need one more type of "plus" program. We have called it, for lack of a better name, a special areas conservation program. It could use the very successful Great Plains conservation program, GPCP, as an example and should, if established, include GPCP as a major component.

Such a program could be established by a piece of "umbrella" legislation, perhaps similar to Public Law 566, that would give USDA the authority to propose special regional programs based on an identified regional need. Such special programs should then be individually approved by the Congress and individually funded in the appropriations process. Each should come to the Congress complete with its own justification, boundaries, operating and administrative characteristics, et cetera.

The first element to be included should be the Great Plains program. In that region, serious wind erosion is the problem and land conversions under long-term contracts have been an effective answer. It is a good, workable approach for the Great Plains and should be continued, as a supplementary program specific to that region.

In addition, however, other regions need special attention that they are not getting. West Tennessee is an example, as is the Palouse region in Idaho and Washington. The recent study of the International Joint Commission has identified a serious problem in the Great Lakes Region.

All of these regions have serious problems, but each is different from the other and all are different from the Great Plains.

In other words, each needs a special program—one that could become an element in the special areas conservation program. The types of programs, the practices involved, the methods of administration—

all could differ, if that were the way USDA and the local interests determine is most feasible. We need to have authority for the Secretary of Agriculture to cause such a program to be developed, to cause its boundaries to be defined, to cause its details and operational details to be defined. They need to bring it up here and present it to you as an additional chapter in this special areas conservation approach.

Then I would argue that it needs to retain that identity through the appropriations process, so that when we get into the appropriations battle we can talk about how much money is needed for Great Plains and how much money is needed for one region and another. I think that is the only way we are going to get to the point where we can do these kinds of things and address the specific problems in those regions.

I think you see the potential in such an approach. It could solve some of our really serious regional conservation problems. But one thing is essential, and this is why we call the concept "base-plus" None of these "plus" efforts should detract from or replace the "base" programs.

Each should be an additional effort, justified on the basis that the base program is inadequate to solve an identified, high-priority problem in a particular region. Only if we keep this "base-plus" concept intact can we attain both of the important national conservation goals that must be achieved:

One, a basic program that transfers soil and water conservation technology to land users everywhere, on every type of land and water use; and,

Two, an adequate response to the specific problems that require high priority national attention.

As you continue your search for improved Federal conservation programs, we offer all the assistance and encouragement within the capability of conservation districts, the State agencies that oversee their work, and the national association that I represent.

We hope you will keep in mind the many elements in our whole national approach. Conservation districts, their State associations, and NACD will continue to encourage the improvement of State, local, and private contributions to soil conservation.

We again urge you to develop Federal programs that are not only effective in their own right, but that also encourage these non-Federal inputs.

Mr. JONES of Tennessee. Excuse me. There is a vote on the floor of the House. So at this point we will have to take a short recess.

[Recess taken.]

Mr. JONES of Tennessee. The subcommittee will resume its sitting. Mr. Sampson?

Mr. SAMPSON. Thank you, Mr. Chairman.

I was just about finished, Mr. Chairman. I think it would be useful to make a closing remark and then answer any questions that you may have.

What I have been proposing here is something that we need to take a strong look at as you look into the RCA options that come out and decide what kinds of legislative approaches you might want to take. It seems to me that only if we keep the "base-plus" concept intact can

we attain both. Both are national goals that I see that we need to think about.

I appreciate time that the subcommittee has spent and I appreciate the goal that you have. You know you have our support as you look at options. We will be most pleased to work with you in any way we can.

Mr. JONES of Tennessee. Thank you very much. I know from past experiences that you are ready.

Rather than keep you here this afternoon and go into some of the details that I am very much interested in, I would like to get you back up here when you have some time so that we can sit down in my office and talk about this. Maybe we can do that with two or three members of the subcommittee. Would that be agreeable?

Mr. SAMPSON. That would be fine.

Mr. JONES of Tennessee. Mr. Daschle, do you have any questions?

Mr. DASCHLE. No, Mr. Chairman, I have no questions at this time.

Mr. JONES of Tennessee. Do you think it would be a good idea to do that?

Mr. DASCHLE. Yes; I would like to participate in that discussion.

Mr. JONES of Tennessee. Yes; we will try to get the subcommittee together to do that. This takes more than just a few moments to talk about. We have discussed it some in previous meetings, but I am really concerned about where we are going and what we are going to do. I do not think we can do it this afternoon.

Mr. SAMPSON. I appreciate that, Mr. Chairman. I think at this point we may need a more informal setting in order to discuss some ideas because there are a lot of things that need to be aired out in an extensive way.

Mr. JONES of Tennessee. I think you are right.

Thank you very much, Mr. Sampson, for your testimony.

Our final witness is Mr. John Artz, member of the board of directors, Society for Range Management.

STATEMENT OF JOHN L. ARTZ, MEMBER, BOARD OF DIRECTORS, SOCIETY FOR RANGE MANAGEMENT

Mr. ARTZ. Thank you, Mr. Chairman.

My name is John L. Artz. I am a professor of range science at the University of Nevada, Reno. I am also a member of the board of directors, Society for Range Management, and it is for this organization I speak today.

The Society for Range Management, SRM, is an international organization of about 6,000 professional range scientists, range managers, ranchers, and others deeply committed to the wise use and management of rangelands. Its central office is at 2760 West Fifth Street, Denver, Colo.

The Great Plains conservation program, GPCP, authorized by Congress in 1956, has compiled an impressive record in providing needed protection and improvement of soil, water, land, and plant resources on the agricultural and rangelands of the 10 States and 469 counties that have been included in the program.

According to data we have reviewed, soil erosion has been reduced by over 240 million tons annually; nearly 5 million acres have been

established as permanent grasslands; 56,000 acres have gone into tree plantations and windbreaks; 1.2 million acres of stripcropping has been applied; and water distribution systems for livestock and wildlife include over 10,500 miles of pipeline and 40,000 earthen structures.

Under the administration of the Soil Conservation Service and the enthusiastic participation of farmers and ranchers, long-term investments have been made through carefully planned and applied conservation contracts. The contracts include practices listed above and many more that have reduced erosion and sediment on over 100 million acres, curbed air and water pollution, enhanced wildlife habitat, and helped to stabilize local economies.

Much, however, remains to be done through GPCP. We understand that only half of the acreage needing conservation work in the designated counties has been treated to date and nearly 5,000 applications for conservation contracts await processing and funding.

For these reasons the Society for Range Management supports extension of the Great Plains conservation program. A copy of a resolution in this regard, adopted by the board of directors on February 12, 1979, is attached to this statement.

I would request that a copy of this resolution be placed in the record.

Mr. JONES of Tennessee. Without objection, so ordered.

Mr. ARZ. In short, we support extension of the GPCP; we urge the removal of, or raising of current total programs and annual cost-share limits; we favor expansion of the presently designated area to include other areas with similar conditions; and we suggest provision, in any future legislation, for GPCP-funded conservation demonstration projects to be carried out in cooperation with landowners and educational institutions.

The Society for Range Management supports cost-share programs which serve as an incentive to establish enduring conservation practices on our Nation's nonfederally owned rangelands. The agricultural conservation program, ACP, administered by Agricultural Stabilization and Conservation Service, has proven its worth for many years through its annual cost share of range practices.

These practices have helped range livestock producers and the public alike. Selective management of invading brush, for example, has increased forage for livestock while improving habitat for wildlife and improving range watershed values.

The Society for Range Management supports the continuation of the ACP with the following provision: Cost-share range improvement practices should be followed by proper range management practices, such as deferred grazing and proper degree of use.

Recipients of Federal cost-share payments should, in our opinion, agree in writing with ASCS to carry out necessary range management as a condition for receiving Federal assistance. There should be no exceptions.

Thank you for this opportunity to comment.

[The resolution referred to follows:]

BOARD OF DIRECTORS RESOLUTION ; CASPER, WYO.—FEBRUARY 12, 1979

GREAT PLAINS CONSERVATION PROGRAM

Whereas a significant amount of rangeland should and can be returned to a more productive plant community through the application of sound grazing management principles and practices ;

Whereas soil sediment yield must and can be reduced ;

Whereas water quantity and quality should and can be greatly improved through discriminative management of invading and spreading brush species ;

Whereas only through a long term, coordinated, and applied plan of action can rangeland be restored ;

And Whereas the Great Plains Conservation Program is designed to coordinate and cost-share the application of range management principles and practices that will restore the productivity of the plant community ;

Therefore be it *Resolved* that the Society for Range Management supports the introduction of legislation that will extend the existing Great Plains Conservation Program for an indefinite period throughout the entirety of all states in the Great Plains Conservation Program Area, and remove fund limitations.

Mr. JONES of Tennessee. Thank you very much, Mr. Artz.

Are there any questions?

Mr. DASCHLE. Mr. Chairman, I have no questions at this time. I appreciate having the statement. I intend to study it in greater detail.

Mr. JONES of Tennessee. We appreciate your being here, Mr. Artz. We will look at your statement very carefully.

This does not conclude all the hearings we intend to have. We will be having more hearings later. But at this time we will adjourn today's hearing.

Prior to that, is there anyone else who would like to say anything?

If not, this concludes today's hearing.

The subcommittee is adjourned subject to the call of the Chair.

[Whereupon, at 4 :25 p.m., the subcommittee was adjourned.]

FEDERAL CONSERVATION AND FARM CREDIT ACT AMENDMENTS

TUESDAY, OCTOBER 2, 1979

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CONSERVATION AND CREDIT
OF THE COMMITTEE ON AGRICULTURE,
Hutchinson, Kans.

The subcommittee met, pursuant to notice, at 9 a.m., in the FarMarCo Conference Room, Hutchinson, Kans., Hon. Ed Jones of Tennessee (chairman of the subcommittee) presiding.

Present: Representatives Glickman and Sebelius.

Staff present: Robert A. Cashdollar, Wayne A. Fletcher, and Frank Winston.

Mr. JONES of Tennessee. Good morning, ladies and gentlemen. I'm Congressman Ed Jones of the Seventh Congressional District of Tennessee, and chairman of the Conservation and Credit Subcommittee of the full Agriculture Committee. I'm delighted to be here in Hutchinson, Kans., with my good friend Dan Glickman, whose district we are in, and almost in Keith Sebelius' district. I'm glad to arrange this hearing today.

Just a word or two about my colleagues who are sitting here this morning. First I'm going to say that Keith Sebelius has been in the Congress longer than I have, a few years longer.

Mr. SEBELIUS. Just a few months.

Mr. JONES of Tennessee. Just a few months. He's the second ranking member of the full Agriculture Committee. Keith and I have worked together now for a good many years, and I must say very closely, because we're all concerned with problems of agriculture, and how they relate to the people back on the farm and those who live in the communities.

We are gathered here for the purpose of hearing witnesses who are concerned about farm credit, and the Great Plains program, and who might be interested in further conservation measures to protect the soil of this great country of ours. At this point H.R. 4782 will be placed in the record.

[H.R. 4782 and the report from the Office of Management and Budget follows:]

96TH CONGRESS
1ST SESSION

H. R. 4782

To amend further the Farm Credit Act of 1971 to permit Farm Credit System institutions to improve their services to borrowers, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JULY 13, 1979

Mr. JONES of Tennessee (by request) introduced the following bill; which was referred to the Committee on Agriculture

A BILL

To amend further the Farm Credit Act of 1971 to permit Farm Credit System institutions to improve their services to borrowers, and for other purposes.

1 ~~Be it enacted by the Senate and House of Representa-~~
2 ~~tives of the United States of America in Congress assembled,~~
3 ~~That this Act may be cited as the "Farm Credit Act Amend-~~
4 ~~ments of 1979".~~

5 **TITLE I—FEDERAL LAND BANKS AND**
6 **ASSOCIATIONS**

7 **SEC. 101. Section 1.4 is amended—**

2

1 (a) in paragraph (6), by striking out after the word
2 “Make” the words “loans and” and inserting in lieu
3 thereof the words “and participate in loans, make”;

4 (b) in paragraph (12), by inserting before the
5 period at the end thereof the words “; participate with
6 one or more other Farm Credit System institutions in
7 loans made under this title or other titles of this Act
8 on the basis prescribed in section 4.18; and participate
9 with lenders which are not Farm Credit System insti-
10 tutions in loans that the bank is authorized to make
11 under this title”;

12 (c) in paragraph (15), by changing the second
13 comma to a semicolon, by striking out before the
14 period at the end thereof the words “and make such
15 other investments as may be authorized by the Farm
16 Credit Administration”, and by inserting in lieu thereof
17 the words “and, as may be authorized by its board of
18 directors and approved by the Farm Credit Administra-
19 tion, (i) sell to lenders which are not Farm Credit
20 System institutions interests in loans, (ii) buy from and
21 sell to Farm Credit System institutions interests in
22 loans and in other financial assistance extended and
23 nonvoting stock, and (iii) make other investments”;

24 (d) by adding a paragraph (22) as follows:

3

1 “(22) Accept contributions to its capital from Federal
2 land bank associations and account therefor as authorized by
3 the Farm Credit Administration.”; and

4 (e) by adding a paragraph (23) as follows:

5 “(23) Agree with other Farm Credit System institutions
6 to share loan and other losses, whether to protect against
7 capital impairment or for any other purpose, as may be au-
8 thorized in regulations of the Farm Credit Administration.”.

9 SEC. 102. Section 1.5 is amended—

10 (a) in subsection (b), by striking out the word “hy-
11 potheticated” and inserting in lieu thereof the word
12 “hypothecated”;

13 (b) in subsection (d), in the first sentence, before
14 the words “and may also be issued” by inserting the
15 words “to borrowers as patronage refunds,” and before
16 the period at the end thereof, by striking out the words
17 “farmers or ranchers” and inserting in lieu thereof the
18 words “farmers, ranchers, and producers or harvesters
19 of aquatic products”;

20 (c) in subsection (d), by inserting the following
21 new sentence between the first and second sentences
22 thereof: “Nonvoting stock also may be issued to and
23 shall be retired for other Farm Credit System institu-
24 tions as may be authorized by its board of directors
25 and approved by the Farm Credit Administration.”;

1 (d) by adding a subsection (f) as follows:

2 “(f) Patronage refunds may be paid in nonvoting stock,
3 participation certificates, allocated surplus, and other equities
4 of the bank, or cash, or in both equities and cash, as deter-
5 mined by the board of the bank, to borrowers of the fiscal
6 year for which such patronage refunds are distributed. All
7 patronage refunds shall be paid in the proportion that the
8 amount of interest on the loans to each borrower during the
9 year bears to the interest on the loans of all borrowers during
10 the year or on such other proportionate patronage basis as
11 the Farm Credit Administration may approve.”; and

12 (e) by adding a subsection (g) as follows:

13 “(g) Equities to evidence contributions to capital may be
14 issued to Federal land bank associations when the bylaws of
15 the bank so provide.”.

16 SEC. 103. Section 1.6 is amended to read as follows:

17 “SEC. 1.6. REAL ESTATE MORTGAGE LOANS.—The
18 Federal land banks are authorized to make or participate
19 with other lenders in long-term real estate mortgage loans in
20 areas defined by the Farm Credit Administration, and make
21 continuing commitments to make such loans under specified
22 circumstances, or extend other financial assistance of a simi-
23 lar nature to eligible borrowers, for a term of not less than
24 five nor more than forty years.”.

1 SEC. 104. Section 1.7 is amended by inserting before
2 the period at the end of the first sentence the words "as
3 provided in section 4.17".

4 SEC. 105. Section 1.8 is amended by striking out in
5 clause (1) the words "and ranchers" and inserting in lieu
6 thereof the words ", ranchers, or producers or harvesters of
7 aquatic products".

8 SEC. 106. Section 1.9 is amended by striking out the
9 first sentence and inserting in lieu thereof the following sen-
10 tence: "loans originated by a Federal land bank or in which it
11 participates with a lender which is not a Farm Credit System
12 institution shall not exceed 85 per centum of the appraised
13 value of the real estate security, or such greater amount as
14 may be authorized in regulations of the Farm Credit Admin-
15 istration for loans guaranteed by Federal, State, or other
16 governmental agencies, and shall be secured by first liens on
17 interest in real estate of such classes as may be approved by
18 the Farm Credit Administration."

19 SEC. 107. Section 1.10 is amended by striking out the
20 first sentence and inserting in lieu thereof the following sen-
21 tence: "Loans made by the Federal land banks to farmers
22 and ranchers and producers or harvesters of aquatic products
23 may be for any agricultural or aquatic purpose and other
24 credit needs of the applicant, including financing for basic
25 processing and marketing directly related to the applicant's

1 operations and those of other eligible farmers, ranchers, and
2 producers or harvesters of aquatic products: *Provided*, That
3 the applicant's operations shall supply at least the percentage
4 of total processing or marketing for which financing is ex-
5 tended that is required by the board of directors of the bank
6 under regulations of the Farm Credit Administration."

7 SEC. 108. Section 1.11 is amended by striking out the
8 words "on-farm operations" and inserting in lieu thereof the
9 words "on-farm and aquatic operations".

10 SEC. 109. Section 1.12 is amended by striking out the
11 designation "(a)" preceding the text.

12 SEC. 110. Section 1.15 is amended—

13 (a) in paragraph (13), by striking out the word
14 "shall";

15 (b) in paragraph (14), before the words "make
16 such other charges for services as may be approved by
17 the bank." by striking out the word "may"; and

18 (c) by adding a paragraph (21) as follows:
19 "(21) Contribute to the capital of the bank."

20 SEC. 111. Section 1.16 is amended—

21 (a) in subsection (a), before the words "book
22 value" in the sixth sentence, by striking out the word
23 "fair"; and

24 (b) by adding a subsection (c) as follows:

1 “(c) Notwithstanding the provisions of subsection (a),
2 the purchase of stock need not be required with respect to
3 that part of any loan (1) made by a Federal land bank which
4 it sells to a lender which is not a Farm Credit System institu-
5 tion, or (2) which such lender retains or acquires in partici-
6 pating in the loan with a Federal land bank.”.

7 SEC. 112. Section 1.17 is amended—

8 (a) in subsection (a), by striking out in the last
9 sentence the word “exess” and inserting in lieu thereof
10 the word “excess”; and

11 (b) in subsection (b), by inserting before the words
12 “out of the whole or any part of net earnings” the
13 words “, and pay patronage refunds, or do any of
14 them, as provided in its bylaws,” and by striking out
15 the word “with” at the beginning of clause (3) and in-
16 serting in lieu thereof the word “the”.

17 SEC. 113. Section 1.18 is amended by striking out sub-
18 section (b) and inserting in lieu thereof a new subsection (b)
19 as follows:

20 “(b) Any association may declare a dividend or divi-
21 dends and pay patronage refunds, or do any of them, as pro-
22 vided in its bylaws, out of the whole or any part of its net
23 earnings available therefor which remain after (1) mainte-
24 nance of the reserve required in subsection (a) hereof and (2)
25 bank approval. All patronage refunds shall be paid on the

1 proportionate patronage basis approved by the bank. Divi-
2 dends shall be noncumulative, and the rate of dividends may
3 be different between different classes and issues of stock and
4 participation certificates on the basis of the comparative con-
5 tributions of the holders thereof to the capital or earnings of
6 the Federal land bank by such classes and issues, but other-
7 wise dividends shall be without preference.”.

8 SEC. 114. Section 1.19 is amended by adding the fol-
9 lowing sentence at the end thereof: “Associations also may
10 enter into agreements with other Farm Credit System insti-
11 tutions to share loan and other losses, whether to protect
12 against capital impairment or for any other purpose, as may
13 be authorized by the bank in accordance with regulations of
14 the Farm Credit Administration.”.

15 SEC. 115. Section 1.20 is amended by inserting after
16 the word “stock” the second time it appears the words “or
17 participation certificates,” and by inserting after the words
18 “Farm Credit Administration” the words “or other Farm
19 Credit System institutions”.

20 **TITLE II—FEDERAL INTERMEDIATE CREDIT**
21 **BANKS AND PRODUCTION CREDIT ASSOCI-**
22 **ATIONS**

23 SEC. 201. Section 2.1 is amended—

24 (a) in paragraph (13), by striking out the words
25 “and make such other investments as may be author-

1 ized by the Farm Credit Administration” and inserting
2 in lieu thereof the words “; and, as may be authorized
3 by its board of directors and approved by the Farm
4 Credit Administration, (i) buy from and sell to Farm
5 Credit System institutions interests in loans and in
6 other financial assistance extended and nonvoting
7 stock, and (ii) make other investments”;

8 (b) by striking out paragraph (18) and inserting in
9 lieu thereof a new paragraph (18) as follows:

10 “(18) Agree with other Farm Credit System institutions
11 to share loan or other losses, whether to protect against capi-
12 tal impairment or for any other purpose, as may be author-
13 ized by its board of directors and approved by the Farm
14 Credit Administration.”; and

15 (c) in paragraph (20), before the period at the end
16 thereof by inserting the following: “, and participate
17 with one or more other Farm Credit System institu-
18 tions in loans made under this title or other titles of
19 this Act on the basis prescribed in section 4.18”.

20 SEC. 202. Section 2.2 is amended—

21 (a) in subsection (d), before the period at the end
22 of the first sentence by inserting the following: “, and
23 may be issued to and, notwithstanding the provisions of
24 subsection (g), shall be retired for other Farm Credit
25 System institutions as may be authorized by its board

1 of directors and approved by the Farm Credit Adminis-
2 tration”;

3 (b) in subsection (g), in the last sentence of the
4 second paragraph, and in the last sentence of the
5 fourth paragraph before the words “book value” by
6 striking out the word “fair”;

7 (c) in subsection (h), before the words “held by
8 the Governor” by inserting the words “or participation
9 certificates” and before the first comma by inserting
10 the words “or other Farm Credit System institutions”;
11 and

12 (d) in subsection (i), before the words “book
13 value” by striking out the word “fair”.

14 SEC. 203. Section 2.3 is amended—

15 (a) by striking out subsection (b) and inserting in
16 lieu thereof a new subsection (b) as follows:

17 “(b) The Federal intermediate credit banks are author-
18 ized to discount for, or purchase from, any national bank,
19 State bank, trust company, agricultural credit corporation,
20 incorporated livestock loan company, savings institution,
21 credit union, association of agricultural producers engaged in
22 the making of loans to farmers and ranchers, and any corpo-
23 ration engaged in the making of loans to producers or har-
24 vesters of aquatic products, with its endorsement or guar-
25 anty, any note, draft, or other obligation the proceeds of

1 which have been advanced or used in the first instance for
2 any agricultural purpose, including the breeding, raising, fat-
3 tening, or marketing of livestock, or for the production or
4 harvesting of aquatic products; and to make loans and ad-
5 vances to any such financing institution secured by such col-
6 lateral as may be approved by the Farm Credit Administra-
7 tion: *Provided*, That no such loan or advance shall be made
8 upon the security of collateral other than notes or other such
9 obligations of farmers and ranchers and producers or harvest-
10 ers of aquatic products eligible for discount or purchase under
11 the provisions of this section, unless such loan or advance is
12 made to enable the financing institution to make or carry
13 loans for any agricultural purpose or for the production or
14 harvesting of aquatic products.”; and

15 (b) in subsection (c), by inserting in the second
16 sentence before the words “if the amount of such
17 paper” the words “or for the production or harvesting
18 of aquatic products,”.

19 SEC. 204. Section 2.4 is amended by inserting in the
20 first sentence after the words “Farm Credit Administration”
21 and before the comma, the words “as provided in section
22 4.17”.

23 SEC. 205. Section 2.5 is amended by inserting between
24 the words “on-farm” and “operations” the words “and
25 aquatic”.

1 SEC. 206. Section 2.6(c) is amended by inserting in the
2 second sentence before the words "25 per centum" the words
3 "or more than".

4 SEC. 207. Section 2.10 is amended by striking out the
5 comma after the words "United States" in the first sentence
6 and inserting a period in lieu thereof.

7 SEC. 208. Section 2.12 is amended—

8 (a) in paragraph (11), by inserting before the
9 period at the end thereof the words "and buy from and
10 sell to such banks interests in loans and in other finan-
11 cial assistance extended and nonvoting stock, as may
12 be authorized by the Federal intermediate credit bank
13 in accordance with regulations of the Farm Credit Ad-
14 ministration";

15 (b) in paragraph (13), by inserting before the
16 period at the end thereof the following: "and when au-
17 thorized by the bank participate with one or more
18 other Farm Credit System institutions in loans made
19 under this title or other titles of this Act on the basis
20 prescribed in section 4.18"; and

21 (c) by striking out paragraph (15) and inserting in
22 lieu thereof a new paragraph (15) as follows:

23 "(15) Agree with other Farm Credit System institutions
24 to share loan or other losses, whether to protect against capi-
25 tal impairment or for any other purpose, as may be author-

1 ized by the Federal intermediate credit bank in accordance
2 with regulations of the Farm Credit Administration.”.

3 SEC. 209. Section 2.13 is amended—

4 (a) in subsection (e), before the period at the end
5 thereof by inserting the words “or in lieu of nonvoting
6 stock”;

7 (b) in subsection (f), in the first sentence before
8 the words “book value” by striking out the word
9 “fair”;

10 (c) in subsection (f), by striking out the last sen-
11 tence and inserting in lieu thereof the following sen-
12 tence: “Notwithstanding any other provisions of this
13 section, for a loan in which an association participates
14 with a commercial bank or other financial institution
15 other than a Farm Credit System institution, nonvoting
16 stock or participation certificates may be issued to the
17 commercial bank or other financial institution in satis-
18 faction of the requirement that the borrower own stock
19 or participation certificates, which requirement shall
20 apply only to the portion of the loan which is retained
21 by the association.”;

22 (d) in subsection (g), in the first sentence before
23 the words “book value” by striking out the word
24 “fair”;

1 (e) in subsection (j), before the words "held by the
2 Governor" by inserting the words "or participation
3 certificates", and before the first comma by inserting
4 the words "or other Farm Credit System institutions";
5 and

6 (f) in subsection (k), before the words "book
7 value" by striking out the word "fair".

8 SEC. 210. Section 2.15 is amended—

9 (a) in subsection (a), in the first sentence by strik-
10 ing out clause (1) and inserting in lieu thereof the fol-
11 lowing clause (1): "(1) bona fide farmers and ranchers
12 and the producers or harvesters of aquatic products, for
13 agricultural or aquatic purposes and other requirements
14 of such borrowers, including financing for basic proc-
15 essing and marketing directly related to the borrower's
16 operations and those of other eligible farmers, ranch-
17 ers, and producers or harvesters of aquatic products:
18 *Provided*, That the borrower's operations shall supply
19 at least the percentage of total processing or marketing
20 for which financing is extended that is required by the
21 supervising bank under regulations of the Farm Credit
22 Administration,"; and

23 (b) in subsection (b), by inserting in the first sen-
24 tence before the first comma the words "as provided in
25 section 4.17".

1 SEC. 211. Section 2.16 is amended by inserting be-
2 tween the words "on-farm" and "operations" the words
3 "and aquatic".

4 **TITLE III—BANKS FOR COOPERATIVES**

5 SEC. 301. Section 3.1 is amended—

6 (a) in paragraph (11), by inserting before the
7 period at the end thereof the following: " , and partici-
8 pate with one or more other Farm Credit System insti-
9 tutions in loans made under this title or other titles of
10 this Act on the basis prescribed in section 4.18";

11 (b) in paragraph (12), before the comma in the
12 first sentence by inserting the words "or any other fi-
13 nancial organization, domestic or foreign, as may be
14 authorized by its board of directors and approved by
15 the Farm Credit Administration";

16 (c) by striking out paragraph (13) and inserting in
17 lieu thereof a new paragraph (13) as follows:

18 "(13)(A) Buy and sell—

19 "(i) obligations of or insured by the United States
20 or of any agency thereof, or securities backed by the
21 full faith and credit of any such agency;

22 "(ii) bankers acceptance which are obligations of
23 any member bank of the Federal Reserve System;

24 "(iii) as may be authorized by its board of direc-
25 tors and approved by the Farm Credit Administration,

1 other obligations which, for purposes of this paragraph,
2 shall include but not be limited to drafts, notes, checks,
3 loans, acceptances, accounts, currencies, or obligations
4 payable in recognized currencies, originating in the or-
5 dinary course of transactions which the bank may fi-
6 nance under section 3.7.

7 “(B) As may be authorized by its board of directors and
8 approved by the Farm Credit Administration, (i) buy from
9 and sell to Farm Credit System institutions interests in loans
10 and in other financial assistance extended and nonvoting
11 stock, and (ii) make other investments.

12 “(C) As may be authorized by its board of directors and
13 approved by the Farm Credit Administration, invest in own-
14 ership interests in business entities, foreign or domestic, to
15 facilitate obtaining credit information and performing loan
16 servicing and financial services related to international trans-
17 actions.”;

18 (d) by adding a paragraph (18) as follows:

19 “(18) As authorized by the board of directors and ap-
20 proved by the Farm Credit Administration, maintain credit
21 balances and pay or receive fees or interest thereon, for the
22 purpose of assisting in the transfer of funds to or from parties
23 to transactions authorized by this title III.”; and

24 (e) by adding a paragraph (19) as follows:

1 “(19) Agree with other Farm Credit System institutions
2 to share loan or other losses, whether to protect against capi-
3 tal impairment or for any other purpose, as may be author-
4 ized by its board of directors and approved by the Farm
5 Credit Administration.”.

6 SEC. 302. Section 3.3 is amended by adding a subsec-
7 tion (f) as follows:

8 “(f) Participation certificates may be issued to parties to
9 whom voting stock may not be issued.”.

10 SEC. 303. Section 3.5 is amended—

11 (a) by striking out the first three sentences and in-
12 serting in lieu thereof the following sentences: “Any
13 nonvoting stock held by the Governor of the Farm
14 Credit Administration shall be retired to the extent re-
15 quired by section 4.0(b) before any other outstanding
16 voting or nonvoting stock or participation certificates
17 shall be retired except as may be otherwise authorized
18 by the Farm Credit Administration. When those re-
19 quirements have been satisfied, nonvoting investment
20 stock and participation certificates may be called for
21 retirement at par. With the approval of the issuing
22 bank, the holder may elect not to have the called stock
23 or participation certificates retired in response to a
24 call, reserving the right to have such stock or partici-

1 pation certificates included in the next call for retire-
2 ment.”; and

3 (b) in the fourth sentence, by striking out the
4 words “fair book value not exceeding”.

5 SEC. 304. Section 3.7 is amended—

6 (a) by adding the designation “(a)” before the
7 text;

8 (b) in the now-designated subsection (a), in the
9 first sentence before the words “collateral custody” by
10 inserting the words “currency exchange,”;

11 (c) by adding a subsection (b) as follows:

12 “(b) A bank for cooperatives is authorized, in connection
13 with transactions of an association which is a voting stock-
14 holder, to make or participate in loans and commitments to a
15 domestic or foreign party in which such association has at
16 least the minimum ownership interest approved in accord-
17 ance with regulations of the Farm Credit Administration, or
18 which engages in transactions with such association for the
19 purchase, sale, or exchange of agricultural commodities, farm
20 supplies, or aquatic products or the lease of real or personal
21 property and extend to such domestic or foreign party other
22 technical and financial assistance if a bank for cooperatives
23 determines, pursuant to such regulations, that the voting
24 stockholder will benefit substantially as a result of such loan,
25 commitment, or assistance.”; and

1 (d) by adding a subsection (c) as follows:

2 “(c) Loans, commitments, and assistance authorized by
3 subsection (b) of this section shall be extended in accordance
4 with policies adopted by the board of directors of the bank
5 and approved by the Farm Credit Administration.”.

6 SEC. 305. Section 3.8 is amended—

7 (a) in the text precedes subsection (a), by striking
8 out the comma before the words “or harvesters of
9 aquatic products”, and by inserting the words “or
10 aquatic” before the words “business services or serv-
11 ices to eligible cooperatives”;

12 (b) in subsection (c), by striking out the words “or
13 farm business services”, and inserting in lieu thereof
14 the words “farm or aquatic business services, or serv-
15 ices to eligible cooperatives”; and

16 (c) in subsection (d), by striking out the words
17 “not less than 80 per centum (70 per centum in the
18 case of rural electric, telephone, and public utility co-
19 operatives)” and inserting in lieu thereof the words
20 “not less than 60 per centum”.

21 SEC. 306. Section 3.9(a) is amended by striking out the
22 first sentence and inserting in lieu thereof the following sen-
23 tence: “Each borrower entitled to hold voting stock shall, at
24 the time a loan is made by a bank for cooperatives, own at
25 least one share of voting stock and shall be required by the

1 bank with the approval of the Farm Credit Administration to
2 invest in additional voting stock or nonvoting investment
3 stock at that time, or from time to time, as the lending bank
4 may determine, but the requirement for investment in stock
5 at the time the loan is closed shall not exceed an amount
6 equal to 10 per centum of the face amount of the loan.”.

7 SEC. 307. Section 3.10 is amended—

8 (a) in subsection (a), before the period at the end
9 of the first sentence by inserting the words “as pro-
10 vided in section 4.17”;

11 (b) in subsection (d), in the first sentence, by strik-
12 ing out the word “book” and inserting in lieu thereof
13 the word “market”, and by adding a second sentence
14 as follows: “In no event shall the bank’s equities be
15 retired or canceled if the retirement or cancellation
16 would adversely affect the bank’s capital structure, as
17 determined by the Farm Credit Administration”.

18 SEC. 308. Section 3.11 is amended—

19 (a) in subsection (b) by striking out in the second
20 sentence the words “less than 25 per centum” and in-
21 serting in lieu thereof the words “less than or more
22 than 25 per centum”; and

23 (b) in subsection (c), by striking out the first sen-
24 tence and inserting in lieu thereof the following sen-
25 tence: “The net savings of each district bank for co-

21

1 operatives, after the earnings for the fiscal year have
2 been applied in accordance with subsection (a) or (b) of
3 this section whichever is applicable; shall be paid in
4 stock, participation certificates, or cash, or in any of
5 them, as determined by the board, as patronage re-
6 funds to borrowers to whom such refunds are payable
7 who are borrowers of the fiscal year for which such
8 patronage refunds are distributed.”.

9 **TITLE IV— PROVISIONS APPLICABLE TO TWO OR**
10 **MORE CLASSES OF INSTITUTIONS OF THE**
11 **SYSTEM**

12 **SEC. 401. Section 4.5 is amended—**

13 (a) in the first sentence, by striking out the word
14 “presidents” and inserting in lieu thereof the word
15 “president” and by inserting before the period at the
16 end thereof the words “or his designee”; and

17 (b) in the third sentence, before the words “or
18 representatives thereof” by striking out the word “sub-
19 committee’s” and inserting in lieu thereof the word
20 “subcommittees”.

21 **SEC. 402. Section 4.10 is amended by striking out**
22 before the words “title of this Act” the word “name” and
23 inserting in lieu thereof the word “same”.

24 **SEC. 403. Title IV is amended by adding at the end**
25 thereof new sections 4.17, 4.18, and 4.19 as follows:

1 “SEC. 4.17. INTEREST RATES.—In order that lending
2 can continue on a self-sustaining basis, interest rates on loans
3 made by institutions of the Farm Credit System shall be de-
4 termined with the approval of the Farm Credit Administra-
5 tion as provided in this Act, notwithstanding any interest
6 rate limitation imposed by any State constitution or statute
7 or other law(s) which are hereby preempted for purposes of
8 this Act.

9 “SEC. 4.18. PARTICIPATION LOANS.—Notwithstand-
10 ing any other provisions of this Act, the terms of any loan
11 participated in by two or more Farm Credit System institu-
12 tions operating under different titles of this Act, including
13 provision for capitalization of the portion of the loan partici-
14 pated in by each institution, shall be as may be agreed upon
15 among such institutions and authorized by the Farm Credit
16 Administration, except that for purposes of determining bor-
17 rower eligibility, membership, term, amount, loan security,
18 and purchase of stock or participation certificates by the bor-
19 rower, the provisions of law applicable to the loan shall be
20 the provisions in the title under which the institution that
21 originates the loan operates.

22 “SEC. 4.19. TRUTH IN LENDING.—The provisions of
23 any State statute or any other law or regulation which
24 impose, with regard to a credit transaction, any duty or re-
25 quirement that had been imposed by the Truth in Lending

1 Act (83 Stat. 146) prior to any amendment thereto shall not
2 be applicable to credit transactions of Farm Credit System
3 institutions.”.

4 SEC. 404. Title IV is amended by adding at the end
5 thereof a new part D as follows:

6 “PART D—SERVICE ORGANIZATIONS

7 “SEC. 4.25. ESTABLISHMENT.—Any bank of the Farm
8 Credit System, or two or more of such banks acting together,
9 may organize a corporation or corporations for the purpose of
10 performing functions and services for or on behalf of the or-
11 ganizing bank or banks, other than the extension of credit,
12 which said bank or banks may perform pursuant to this Act.
13 A corporation so organized shall have no greater authority
14 with respect to such functions or services than the organizing
15 bank or banks possess under this Act. The organizing bank
16 or banks shall apply for a Federal charter for the corporation
17 by forwarding to the Governor of the Farm Credit Adminis-
18 tration a statement concerning the need for the corporation
19 and proposed articles specifying in general terms the objects
20 for which the corporation is formed, the powers to be exer-
21 cised by it in carrying out the functions and services, and the
22 territory it is to serve. The Governor for good cause may
23 deny the charter applied for. Upon the approval of articles by
24 the Governor and the issuance of a charter, the corporation

1 shall become as of such date a federally chartered body cor-
2 porate and an instrumentality of the United States.

3 “SEC. 4.26. POWERS OF THE GOVERNOR.—The Gov-
4 ernor shall have power, under rules and regulations pre-
5 scribed by him or by prescribing in the terms of the charter
6 or by approval of the bylaws of the corporation, to provide
7 for the organization of any corporation chartered under this
8 part and the territory within which its operations may be
9 carried on, and to direct at any time such changes in its
10 charter as he finds necessary for the accomplishment of the
11 purposes of this Act. The powers of the Governor to provide
12 for the organization of any corporation chartered under this
13 part include, but are not limited to approval of—

14 “(1) Corporate title.

15 “(2) General corporate powers.

16 “(3) Eligibility for membership on, and the
17 powers, composition, selection, terms, and compensa-
18 tion of the board of directors.

19 “(4) Classes, issuance, value, and retirement of
20 stock.

21 “(5) Sources of operating funds.

22 “(6) Dissolution, liquidation, and distribution of
23 assets on liquidation.

24 “(7) Application and distribution of earnings.

1 “SEC. 4.27. SUPERVISION AND EXAMINATION.—The
2 corporations organized pursuant to this part shall be institu-
3 tions of the Farm Credit System and shall be subject to the
4 same supervision and examination by the Farm Credit Ad-
5 ministration as are the organizing bank or banks under this
6 Act.”.

7 **TITLE V—DISTRICT AND FARM CREDIT**

8 **ADMINISTRATION ORGANIZATION**

9 **SEC. 501.** Section 5.2 is amended—

10 (a) in subsection (b), in the last sentence thereof
11 striking out the word “three” and inserting in lieu
12 thereof the word “two”; and

13 (b) in subsection (c), in the first sentence thereof
14 by striking out the word “three” and inserting in lieu
15 thereof the word “two”.

16 **SEC. 502.** Section 5.8(h) is amended, in the first sen-
17 tence thereof by striking out the words “the sum of \$100 a
18 day” and inserting in lieu thereof the words “compensation
19 at a rate equal to the daily equivalent of the rate prescribed
20 for grade GS-18 under section 5332 of title 5, United States
21 Code”.

22 **SEC. 503.** Section 5.11 is amended—

23 (a) in the first sentence by striking out the words
24 “in the Executive Pay Schedule” and inserting in lieu
25 thereof the words “by the Federal Farm Credit Board

1 but not to exceed the maximum rate of basic pay in
2 the Executive Schedule (5 U.S.C. chapter 53, sub-
3 chapter II)";

4 (b) by striking out the second sentence and insert-
5 ing in lieu thereof the following sentence: "The Board
6 shall fix allowances, or per diem in lieu thereof, for
7 necessary travel and subsistence expenses of the Gov-
8 ernor while traveling on official business."; and

9 (c) by inserting at the end thereof the following
10 new sentence: "In addition, the Board may fix (1) the
11 allowances, or per diem in lieu thereof, for necessary
12 travel, relocation, and subsistence expenses of a person
13 newly appointed as Governor and the immediate family
14 of such person, and (2) allowances for necessary travel
15 and subsistence expenses of persons under considera-
16 tion for appointment to the position of Governor in-
17 curred in connection with interviews requested by the
18 Board.".

19 SEC. 504. Section 5.27 is amended by striking out sub-
20 section (a) and inserting in lieu thereof the following:

21 "(a) The Executive Schedule of basic pay (80 Stat. 485;
22 5 U.S.C. 5311-5317), as amended, is further amended by
23 striking from positions at level III the position '(57) Gover-
24 nor of the Farm Credit Administration'. (5 U.S.C. 5314)."

25 SEC. 505. Section 5.13 is amended to read as follows:

1 “SEC. 5.13. FARM CREDIT ORGANIZATION.—The
2 Governor of the Farm Credit Administration is authorized, in
3 carrying out the powers and duties now or hereafter vested in
4 him by this Act and Acts supplementary thereto, to establish
5 and fix the powers and duties of such divisions and instru-
6 mentalities and to appoint such number of Deputy Governors
7 as he may deem necessary to the efficient functioning of the
8 Farm Credit Administration and the successful execution of
9 the powers and duties so vested in the Governor and the
10 Farm Credit Administration. The salary for the positions of
11 Deputy Governor shall be at the rate or rates fixed by the
12 Federal Farm Credit Board but not to exceed the maximum
13 rate of basic pay in the Executive Schedule (5 U.S.C. chap-
14 ter 53, subchapter II). The Governor is further authorized,
15 without regard to the provisions of the competitive civil serv-
16 ice and classification statutes and regulations issued thereun-
17 der, to establish, determine the level of responsibilities of,
18 make appointments to, and fix in advance salaries for, such
19 other positions in the Farm Credit Administration as may be
20 necessary to carry out its functions: *Provided*, That the
21 salary for any such position may not exceed the annual rate
22 of basic pay for positions at level V of the Executive Sched-
23 ule. With the approval of the Federal Farm Credit Board,
24 the Governor may fix without regard to the provisions of
25 chapter 57, title 5 of the United States Code (1) allowances,

1 or per diem in lieu thereof, for necessary travel and subsist-
2 ence expenses of officers and employees of the Farm Credit
3 Administration while traveling on official business, (2)
4 allowances, or per diem in lieu thereof, for necessary travel,
5 relocation, and subsistence expenses of new appointees, and
6 of officers and employees of the Farm Credit Administration
7 who are transferred in the interest of the Farm Credit Ad-
8 ministration from one official station to another for perma-
9 nent duty, and their immediate families, and (3) allowances
10 for necessary travel and subsistence expenses of applicants
11 for employment with the Farm Credit Administration in-
12 curred in connection with preemployment interviews.”.

13 SEC. 506. Section 5.15 is amended—

14 (a) in the first sentence after the second comma
15 and before the words “make necessary expenditures”,
16 by inserting the words “and without regard to the pro-
17 visions of law relating to the acquisition of property
18 and services by the Government of the United
19 States,”; and

20 (b) by adding at the end thereof the following new
21 sentence: “The Farm Credit Administration may dis-
22 pose of property so acquired without regard to the pro-
23 visions of law relating to the disposal of Government
24 property, and any amounts collected from the disposi-
25 tion of such property shall be deposited in the special

1 fund provided for in section 5.16(b) and shall be availa-
2 ble to said Administration in the same manner and for
3 the same purposes as the funds collected under section
4 5.16(a).”.

5 SEC. 507. Section 8332 of title 5 of the United States
6 Code is amended in subsection (b)—

7 (a) by striking out the word “and” after the semi-
8 colon in paragraph (8);

9 (b) by striking out the period at the end of para-
10 graph (9) and inserting in lieu thereof “; and” and by
11 inserting after paragraph (9) a paragraph (10) as fol-
12 lows:

13 “(10) service in the employment of a Farm Credit
14 System institution which is not otherwise included as
15 service under this subsection if he later becomes sub-
16 ject to the provisions of this subchapter.”;

17 (c) by inserting before the words “For the purpose
18 of this paragraph (5)” a new sentence as follows: “The
19 Office of Personnel Management shall accept the certi-
20 fication of the Governor of the Farm Credit Adminis-
21 tration or his designee concerning service for the pur-
22 pose of this subchapter of the type performed by an
23 employee named by paragraph (10) of this subsec-
24 tion.”; and

1 (d) by inserting at the end thereof a new sentence
2 as follows: "Service referred to in paragraph (10) is al-
3 lowable only in the case of persons who are subject to
4 this subchapter on, or become subject thereto after, the
5 effective date of the Farm Credit Act Amendments of
6 1979."

7 SEC. 508. Section 8339 of title 5 of the United States
8 Code is amended in subsection (i) by inserting at the end
9 thereof a new sentence as follows: "With respect to an annu-
10 ity which is based upon service credited under section
11 8332(b)(10) of this title, unless the employee or Member
12 elects to eliminate the service involved for the purpose of the
13 annuity computation, the annuity is further reduced by an
14 amount equal to that portion of any retirement benefit pay-
15 able to the annuitant for the year under a Farm Credit
16 System institution retirement plan which is allocable to such
17 service, or where there has been a lump-sum payment under
18 the plan to the annuitant, by an amount which the Office of
19 Personnel Management determines would have been payable
20 to annuitant for the year and allocable to the service if the
21 lump-sum payment had not been made."

22 SEC. 509. Section 6308 of title 5 of the United States
23 Code is amended in the first sentence by inserting "or"
24 before "(vi)", and by striking out ", or (vii)".

United States of America
Office of
Personnel Management Washington, D.C. 20415

In Reply Refer To

October 30, 1979

Your Reference

Honorable Thomas S. Foley
 Chairman, Committee on
 Agriculture
 House of Representatives
 Washington, D.C. 20515

Dear Mr. Chairman:

The Office of Personnel Management wishes to advise the Committee on Agriculture of its views on H.R. 4782, the "Farm Credit Act Amendments of 1979." We are concerned with certain personnel provisions in title V of the bill.

Section 502 of the bill would amend the Farm Credit Act of 1971 (Public Law 92-181) to increase the compensation of the members of the Federal Farm Credit Board from \$100 per day to the daily rate for GS-18. We have no objection to this change.

Sections 503, 504 and 505 would amend the Farm Credit Act to remove the position of Governor of the Farm Credit Administration from level III of the Executive Schedule and to remove the present GS-18 limitation on pay for Deputy Governors of the Farm Credit Administration. The Federal Farm Credit Board would be authorized to fix the salaries of the Governor and the Deputy Governors, up to the rate for level I of the Executive Schedule.

We object very strongly to this change. The Executive Schedule was established to provide an equitable and rational pay structure for the most important positions throughout the executive branch. The Executive Schedule is intended to cover not only top positions in the executive departments and the regular Federal agencies but also top positions in such relatively independent instrumentalities of the Federal Government as the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, the Tennessee Valley Authority, the Export-Import Bank, the Overseas Private Investment Corporation, and the Farm Credit Administration. With the exception of the Chairman of the Board of Governors of the Federal Reserve System, the top officer in each of these entities is compensated at level III of the Executive Schedule. (The Federal Reserve Chairman is compensated at level II.) The Farm Credit Administration has not presented any good reason for its proposal to fix a level I limit on the pay of its Governor and we believe any increase from the present level III would be inappropriate.

COM 114-24-3
 January 1979

We also believe it would be inappropriate to remove the GS-18 ceiling on the authority of the Farm Credit Administration to fix the salary of the Deputy Governors. These positions are now in the Senior Executive Service, with potential for substantially increased compensation through performance and rank awards, and there seems to be no clear rationale for removal of the ceiling.

In addition to removing the GS-18 limitation on pay for Deputy Governors, the bill would authorize the Governor of the Farm Credit Administration to appoint and fix the pay of its employees without regard to the laws governing Federal employment, but with pay limited to the rate for level V of the Executive Schedule.

We must object to this provision. Under section 5102(c)(14) of title 5, United States Code, employees who are paid from nonappropriated funds are exempt from the General Schedule classification and pay system. This is the basis under which certain Federal financial agencies such as the Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve System, are excepted from the General Schedule and are thus able to fix pay administratively. While section 5 16 of the Farm Credit Act would constitute authority to operate without appropriated funds, it is our understanding that Congress has consistently chosen to ignore this provision of law and specifically appropriate funds for the administrative expenses of the Farm Credit Administration, with these funds to be drawn from assessments collected from the member institutions of the Farm Credit System. (See, for example, Title V of Public law 95-448, October 11 1978 for the fiscal year 1979 appropriation.) As long as Congress chooses to require the Farm Credit Administration to operate under the appropriations process, we do not believe it would be appropriate to remove this agency from the Government-wide General Schedule system.

The Farm Credit Administration has argued that these exceptions from the normal Federal employment laws are needed to facilitate hiring new employees at rates above the minimum of the grade without OPM clearance and to raise salaries to a level competitive with the Farm Credit System. Under the provisions of the Civil Service Reform Act OPM has already provided for the delegation of advanced in-hiring rate approval at GS-11 and above to agencies subject to performance agreements, and this flexibility should provide considerable assistance to the Farm Credit Administration. We note that the Farm Credit Administration has not requested that OPM exercise its authority under 5 U S.C. 5303 to establish special higher rates of pay for occupations in areas where higher private sector pay rates significantly handicap the Government's recruitment or retention of well-qualified persons. The new Senior Executive Service should also help in recruiting at higher levels. With respect to the need to keep salaries competitive with those in the Farm Credit System, we note that, under section 5.18(4) of the Farm Credit Act the Farm Credit Administration is responsible for approving the salary schedules for the member institutions of the Farm Credit System.

(except the associations within that System). We are surprised that the Farm Credit Administration now argues that these salaries which it has approved are so high that it is unable to attract employees from these member institutions to the Administration itself.

Similarly, we must object to the Farm Credit Administration's desire to be excepted from the normal civil service appointment and tenure laws. Under the Civil Service Reform Act we are making rapid progress toward the decentralization of the examining process, where such decentralization would be appropriate, and we believe these efforts will greatly relieve any staffing delays the Farm Credit Administration has encountered. We note that we have already authorized Special Examining Units under which the Farm Credit Administration has been delegated the entire examining process for four of its major occupations, subject to OPM supervision.

The Farm Credit Act would be further amended to authorize the Board to pay travel, relocation, and subsistence expenses of a newly-appointed Governor and his or her immediate family; and allowances for travel and subsistence expenses of persons under consideration for appointment to the position of Governor in connection with interviews requested by the Board. Relocation expenses are not currently reimbursed for a newly appointed individual in an Executive Schedule position, or for pre-appointment interviews at that level. The Farm Credit Administration would also be excepted from the provisions of chapter 57 of title 5, United States Code, relating to reimbursement for travel and transportation, and to travel, relocation, and subsistence expenses of new appointees, transferees and candidates for employment. We must defer to the General Services Administration, which is responsible for the administration of these provisions.

Sections 507 and 508 would provide portability of service credit for non-Federal service in Farm Credit System institutions if the employee moves to a position subject to the Civil Service retirement law after the effective date of the amendment. The Farm Credit Administration evidently feels that portability of retirement benefits would be an incentive for employees in the System institutions to join the Administration, but such a use of the retirement system would be inappropriate and prohibitively expensive. Since no agency contributions would have been made for the service in the System, employees would have the option of taking a 10 percent reduction in annuity rather than making a deposit of their own contributions. Furthermore, this provision could create a dangerous precedent that would lead other groups to press for the same expensive treatment. The Civil Service Retirement System is an integral part of the Government's personnel program, designed to encourage and reward service to the Federal Government. There is no basis on which to reward non-Federal service, and such a practice would reduce the system's effectiveness as an instrument of personnel management.

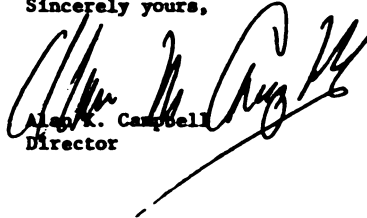
We are sympathetic to the problems of retirement portability that are faced by the Farm Credit Administration, but these problems are the same as those faced by the Federal Government generally whenever it recruits from outside its own ranks. In fact, the issue of retirement portability

s a major problem for all employers in our economy. It is because the problem is so general that two national study groups, the President's Commission on Pension Policy and the Universal Coverage Study Group at the Department of Health, Education, and Welfare, will consider, along with other matters, the entire area of portability. We believe that it could be undesirable to make any changes in this area until the findings of those two study bodies are available.

Section 509 is intended, we believe, to authorize leave balances earned under the Farm Credit System to be transferred to Federal employment. However, the bill as drafted would not accomplish this. The transfer of leave authorization in section 6308 of title 5, United States Code, applies to the transfer of leave between different Federal leave systems and has no application to the transfer of leave earned under non-Federal systems to the Federal system. The mention of the employees of Farm Credit System institutions in 5 U.S.C. 6301(2)(vii), and the related exclusion from the present 5 U.S.C. 6308, are obsolete references, dating from the period before the 1959 Act when these employees were actually Federal employees. Since that Act, however, they have not been Federal employees, and have not met the definition of "employee" in 5 U.S.C. 6301(2). Therefore, amending 5 U.S.C. 6308 as proposed in section 509 of the draft bill would not accomplish its purpose. Even if it were redrafted, however, we would object strongly to this provision. Accepting transferred leave from a non-Federal organization would be costly, and we believe it would set a dangerous precedent.

The Office of Management and Budget advises that enactment of these provisions would not be consistent with the Administration's objective.

Sincerely yours,



Alan K. Campbell
Director

United States by a considerable margin, with sales for the fiscal year ending August 31, 1979, of approximately \$3.7 billion.

Farmland Industries directly, and through subsidiary operations, engages in seven major lines of business serving farmers as follows: petroleum, fertilizer and agricultural chemicals, feed, farm equipment and supplies, livestock and meat marketing, grain and soybean marketing, and insurance. It is a combination farm supply and farm product marketing cooperative.

The Farmland Cooperative System reflects a federated cooperative system. In our federated system, 500,000 farmers and ranchers own and control the 2,310 local cooperatives who, in turn, own and control Farmland Industries. These locals vary in size and type. Their relationship with Farmland is independent in nature. A large number of our members are borrowers from the Farm Credit System, not only in this district but in other Farm Credit districts as well.

Over the years, Farmland has enjoyed and benefited from a close working relationship with the Wichita Bank for Cooperatives, other district banks, and the Central Bank for Cooperatives. In 1939, for instance, the Wichita Bank for Cooperatives assisted Farmland in the financing of the first cooperative petroleum refinery in the United States, at Phillipsburg, Kans.

The Wichita bank, and other participating banks in the Farm Credit System, have been instrumental in developing Farmland Industries. A measure of the economic significance of Farmland Industries can be gained from the fact that in its 50 years of corporate life, Farmland Industries has earned approximately \$900 million in savings, and has returned approximately half of this in cash to its member local associations. The other half, evidenced by common stock, is at work in the form of facilities and operating capital.

Farmland Industries is one of the largest borrowers in the entire Farm Credit System. Not only has the system been an important source of funds; but also, it has furnished refunds to Farmland Industries. In turn, these refunds lower the cost of borrowed funds and enhances Farmland refunds to its members and, in turn, to farmers and ranchers.

Farmland Industries, at the present time, is a large holder of stock in the system. Because of this ownership, we have a deep interest in the system and the proposed legislation.

The Farm Credit System has benefited Farmland and its member associations. Farmland and its members have, in turn, benefited the Farm Credit System. Our support has been an important factor in building the system.

In addition to the Farm Credit System, Farmland obtains funds from many sources including commercial banks.

H.R. 4782 is an updating of the Farm Credit Act of 1971, which is the basic farm credit law. All businesses and institutions go through constant change—some minor and some major. Our society is dynamic. Therefore, it is completely natural that from time to time, the farm credit legislation needs updating.

Farmland Industries supports H.R. 4782 and urges its passage with one amendment which I will discuss later.

We are in agreement with the proposal to reduce from 80 to 60 percent the percentage of members of a cooperative that have to be

Congressman Madigan of Illinois. Congressman Madigan is the ranking member of the Conservation Subcommittee. Wayne has been a great help to both Bob and me and to all the other members of the Conservation Subcommittee in the legislation that we have been developing.

Mr. GLICKMAN. I would like to introduce Betty Johnson who works in my Hutchinson office, and then Myrne Roe who is my administrative assistant, and Greg Frazier, in the back of the room also.

Mr. JONES of Tennessee. I'm going to ask the witnesses today to be as brief as you can possible be, but we want you to cover the subject. We're not going to ask you any questions until we finish all of the witnesses for the morning session, then we will call you all back and discuss the issues and problems that you have in mind.

If you summarize your statement it will be made part of the record regardless of whether you summarize it or whether you read it in its entirety. We want to make it as informal as we possibly can. We're all interested in the same problems, and we are more than delighted to spend this week out in the districts of this country of ours in hearing people interested in the problems at hand.

From here we are going to Aberdeen, S. Dak., for a hearing tomorrow, and then from there to Memphis for 2 days of hearings. There is a reason for 2 days in Memphis, not because it is my congressional district altogether, but because we cover three farm credit banks in the Memphis area if we have it there.

So just be as informal as you like and we're going to be the same way. We will probably have these coats off in a little while if it gets hot in here, and I want to say to the people here in management of FarMarCo. that we do appreciate very much the arrangements that you have made. It is a delightful place to have a hearing. I can't think of a more convenient location than we have here this morning.

So we're going to call the first witness now, Mr. Gordon Leith, corporate vice president and secretary of Farmland Industries.

STATEMENT OF W. GORDON LEITH, CORPORATE VICE PRESIDENT, FARMLAND INDUSTRIES, KANSAS CITY, MO.

Mr. LEITH. Good morning, Chairman Jones, Congressman Sebelius, and Congressman Glickman.

I am W. Gordon Leith, corporate vice president of Farmland Industries, Inc., Kansas City, Mo. I have been an employee of Farmland Industries for 30 years, and a senior officer of Farmland for 18 years.

I have been a member of the board of directors of the National Council of Farmer Cooperatives since 1962, and served as chairman in 1972 and 1973.

I appear on behalf of Farmland Industries before this subcommittee to support H.R. 4782 to amend the Farm Credit Act of 1971, to permit the Farm Credit System to improve services to borrowers. At the end of this statement, I suggest an amendment in the latter part of my statement and raise two questions for the consideration of this subcommittee.

Farmland Industries is headquartered in Kansas City, Mo. It was organized 50 years ago in 1929 and is the largest cooperative in the

United States by a considerable margin, with sales for the fiscal year ending August 31, 1979, of approximately \$3.7 billion.

Farmland Industries directly, and through subsidiary operations, engages in seven major lines of business serving farmers as follows: petroleum, fertilizer and agricultural chemicals, feed, farm equipment and supplies, livestock and meat marketing, grain and soybean marketing, and insurance. It is a combination farm supply and farm product marketing cooperative.

The Farmland Cooperative System reflects a federated cooperative system. In our federated system, 500,000 farmers and ranchers own and control the 2,310 local cooperatives who, in turn, own and control Farmland Industries. These locals vary in size and type. Their relationship with Farmland is independent in nature. A large number of our members are borrowers from the Farm Credit System, not only in this district but in other Farm Credit districts as well.

Over the years, Farmland has enjoyed and benefited from a close working relationship with the Wichita Bank for Cooperatives, other district banks, and the Central Bank for Cooperatives. In 1939, for instance, the Wichita Bank for Cooperatives assisted Farmland in the financing of the first cooperative petroleum refinery in the United States, at Phillipsburg, Kans.

The Wichita bank, and other participating banks in the Farm Credit System, have been instrumental in developing Farmland Industries. A measure of the economic significance of Farmland Industries can be gained from the fact that in its 50 years of corporate life, Farmland Industries has earned approximately \$900 million in savings, and has returned approximately half of this in cash to its member local associations. The other half, evidenced by common stock, is at work in the form of facilities and operating capital.

Farmland Industries is one of the largest borrowers in the entire Farm Credit System. Not only has the system been an important source of funds; but also, it has furnished refunds to Farmland Industries. In turn, these refunds lower the cost of borrowed funds and enhances Farmland refunds to its members and, in turn, to farmers and ranchers.

Farmland Industries, at the present time, is a large holder of stock in the system. Because of this ownership, we have a deep interest in the system and the proposed legislation.

The Farm Credit System has benefited Farmland and its member associations. Farmland and its members have, in turn, benefited the Farm Credit System. Our support has been an important factor in building the system.

In addition to the Farm Credit System, Farmland obtains funds from many sources including commercial banks.

H.R. 4782 is an updating of the Farm Credit Act of 1971, which is the basic farm credit law. All businesses and institutions go through constant change—some minor and some major. Our society is dynamic. Therefore, it is completely natural that from time to time, the farm credit legislation needs updating.

Farmland Industries supports H.R. 4782 and urges its passage with one amendment which I will discuss later.

We are in agreement with the proposal to reduce from 80 to 60 percent the percentage of members of a cooperative that have to be

farmers for the cooperative to be eligible for loans from the bank for cooperatives. This will enable cooperatives to better serve their rural communities without losing their eligibility to borrow, but still insure that farmers will retain control of their cooperatives.

We support the proposal for the banks for cooperatives to finance the export of agricultural products by cooperatives.

I would like to comment a little more in detail on this. I serve as a member of the board of directors of the Farmers Export Co., which is engaged in the export of grain for its 12 cooperative members.

U.S. agricultural exports in 1978 amounted to \$29.4 billion. In 1978, grain and oilseed exports amounted to almost \$20 billion. The significance of agricultural exports is clearly shown when we realize that the United States will spend close to \$60 billion for imported crude oil in 1979.

The exportation of grain is one of the few bright spots on our balance of trade ledger and benefits the entire Nation through its positive contribution to our economy.

Cooperatives have successfully entered many fields to serve the needs of their members and to return savings to them. This includes the grain business. Most cooperative activity in the grain field over the past few decades has been concentrated at the first marketing level; namely, country-point storage and marketing.

It was only natural that a terminal marketing program involving terminal elevators should have come into being.

The latest move has been into the export of grain. After some earlier failures, this development is now taking root and growing.

There is no need to dwell on the needs for and the benefits of increased exports of agricultural commodities. This is conceded by all segments of our society. How we accomplish this depends largely on the intensified efforts of those efforts of those who produce and market those commodities. Cooperatives are the tools available to those who produce and market. The legislation we are seeking will round out the export marketing programs of cooperative and assist them in expanding their services and sales. Cooperatives serve U.S. farmers and operate in their behalf as contrasted to the worldwide origins of grain of the international grain firms.

In the past few years, especially since the large Russian grain sale of 1972 and 1973, the hue and cry from our membership has been for cooperatives to become stronger in the export market. Actually, this has been taking place.

Several cooperatives export grain, but the leader by far is the Farmers Export Co. Farmers Export now has capability of loading ships on the gulf coast, the Atlantic coast, and the Pacific coast; and it is selling direct to foreign buyers. We expect its shipments and share of the market to increase in the future.

The extension of the banks for cooperatives into financing for export activities would be a welcome addition to the financial options available to grain exporting cooperatives. Therefore, we support the inclusion in H.R. 4782 of provisions to permit the banks for cooperatives to engage in this activity.

H.R. 4782 also contains provisions to broaden the authority of the Federal land bank system and the production credit system to finance processing and marketing activities of farmers.

We urge this section of the bill be amended. Before commenting further, I would like to point out that agriculture does not often present a united front on matters of national concern. The voice of agriculture is splintered and divided by commodity interests, geographic differences, various farm organization points of view, and basic differences in the thoughts and beliefs of farm leaders.

This has caused considerable confusion especially to legislators who are considering agricultural issues.

At Farmland, our concern with this particular provision of the proposed legislation is that conflicts and confusion may arise with cooperative associations owned and operated for the benefit of all their patrons engaged in processing and marketing activities.

Under the proposed legislation, a person could obtain a loan from a Federal land bank association or a production credit association to construct a grain elevator, a cotton gin, fruit packinghouse, meat packing plant, or other processing and marketing facilities. He could operate these facilities not only to process products of his own farm, but also those of other farmers.

Therefore, he could engage in and profit from commercial activities for other persons, and do this on a noncooperative basis using Farm Credit funds. It is entirely conceivable that there could be a cooperative association performing the same functions in the same area.

There is no provision that any facility be located on his farm or ranch, and there is no provision that any given percentage of the raw materials used in such processing and marketing operations would have to come from his own production. Instead, the legislation provides only that each district board of directors could set a percentage that would be required from a borrower's own production under broad regulations established by the Federal Farm Credit Board.

We feel that this could result not only in diverse regulations from one district to the next, but also in regulations that could be changed, and changed easily and materially in future years.

Therefore, we urge that H.R. 4782 be amended to require that at least 20 percent of the raw materials processed or marketed be furnished by the recipient of the loan under this provision.

We would also call to the attention of this committee the following questions regarding the expanded program of loans of the land bank and production credit systems:

First: Will large commercial firms who are now in agricultural production and also processing be able to obtain Farm Credit funds to build facilities such as packing plants or possibly food wholesale operations?

Second: Will the program shift emphasis of lending activities if the Farm Credit System to larger producers and away from smaller family farm operations?

We thank you for this opportunity to present our views. Thank you.

Mr. JONES of Tennessee. Thank you very much. As I said, we will come back to questions later.

Our next witness is Don Hayes, assistant vice president for export marketing, Union Equity Cooperative Exchange, Enid, Okla.

Don, we are glad that you're here. I participated in a hearing in the union about 3 months ago. We were there for 1 full day.

Mr. HAYES. Thank you, Mr. Chairman. I'm sorry I missed you that day when you were in Enid.

**STATEMENT OF DON E. HAYES, ASSISTANT VICE PRESIDENT,
EXPORT SALES, UNION EQUITY COOPERATIVE EXCHANGE, ENID,
OKLA.**

Mr. HAYES. I am Don E. Hayes, assistant vice president of export sales with Union Equity Cooperative Exchange, Enid, Okla. Union Equity is a regional grain marketing, storage, and exporting terminal having a total storage capacity of 67 million bushels, including an export elevator at Houston, Tex. Union Equity is owned by its farmer-members, represented by 292 country elevators operating in eight States throughout the Midwest. Union Equity has long been committed to the Farm Credit Banking System and is a major stockholder in the Wichita Bank for Cooperatives. As a much more detailed brief about my firm, myself, and our involvement in export markets has been presented to you previously in written form, I would quickly like to summarize how House of Representatives bill 4782, the Farm Credit Act Amendments of 1979, will benefit the exporting cooperatives and their farmer-members as they combine their abilities to help the U.S. balance of trade as we strive to increase the marketing of agricultural commodities throughout the world.

In this day of ever-changing circumstances the financing needs of cooperatives have also changed. We find that farmer-owners are encouraging that new markets be explored and new sales of their grain be made. To do this, the cooperative exporter, in turn, looks to his bank for cooperatives to provide him with the best financing agreements possible. This financing must be up to date and as economical as possible in order to allow the exporting cooperative to be a competitor in the market place. It is for these reasons that the Farm Credit System cannot help expand foreign trade to its fullest unless we update with the legislation House of Representatives bill 4782 provides. Under the export financing provisions of the act the authorization given to banks for cooperatives to make deposits in foreign banks, and to hold credit balances from borrowers and other banks, would definitely help speed up collections and payments of export transactions. These authorizations would also provide many other flexibilities in funds transfers, would reduce payment risk potentials, and would provide for much better sales service items by banks for cooperatives, such as immediate bid and performance bond openings in foreign banks. Complete new bank for cooperative financing methods would also be established by House of Representatives bill 4782. Two of the new methods of financing would be made possible by the provisions of the act, allowing banks for cooperatives to purchase time drafts of foreign buyers of agricultural products, as well as authorizing banks for cooperatives to make loans directly to associated parties where there will be substantial benefits to the exporting cooperative. Presently in grain exporting, we are just beginning to see foreign buyers show an interest in the use of short-term (60 to 180 day) time drafts. Peru and Chile, for example, used this type of financing to some extent in the exporting year of 1978-79. These two countries purchased approximately 6.4 percent of the Hard Red Winter that was exported from the United States last year. Also, during the past year, inquiries have been received from foreign buyers asking exporters themselves to provide longer term financing of grain sales.

Both of these types of financing could now be provided by the cooperative exporter, thus allowing him to compete in the marketplace with the support of his bank for cooperatives.

Another feature of the bill, if amended, would be a third new method of financing—that of authorizing banks for cooperatives to purchase bankers acceptance notes. These acceptances are short-term (30 to 180 days) financing notes used to finance exports, imports, shipments, and storage of staple goods. Rates of interest are sometimes cheaper on this type of note than the posted rate offered through the Farm Credit System. Notes of this type offer the cooperative exporter some flexibility as he tries to minimize his financing costs. Private banking systems have been allowed to offer this type of financing; so also should the Farm Credit System.

Another change House of Representatives bill 4782 offers is that banks for cooperatives could enter foreign currency exchanges to buy and sell for the benefit of exporting cooperatives. This would be necessary if the exporter's sale terms provided for payment in the foreign buyer's currency. This hedging by the banks for cooperatives would minimize the risk involved in the rapidly fluctuating monetary markets, thus locking in the exporter's gross margin of profit at sale date, rather than leaving him to face a big risk of loss at payment date. Colombia recently has purchased a sizable quantity of wheat in that country's own currency. A cooperative did not sell it.

It is clear that if the Farm Credit Act Amendments of 1979 are put into law, it should enable the cooperative exporter to be more adequately financed through the Farm Credit System, thus, in turn, allowing that exporter to gain a greater share of the farm product export business, to the overall benefit of the farmer-owner.

Union Equity is grateful for the opportunity to express its views before this committee.

I would be pleased to answer any questions.

Mr. JONES of Tennessee. Thank you very much, Mr. Hayes. We will call you back.

Next witness is Mr. K. C. Martin, chairman, executive committee, Cooperative Utilities Finance Corp. Mr. Martin, we are glad to see you here.

**STATEMENT OF K. C. MARTIN, CHAIRMAN, EXECUTIVE COMMITTEE,
COOPERATIVE UTILITIES FINANCE CORP., LOVINGTON, N. MEX.**

Mr. MARTIN. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee, my name is K. C. Martin, I'm chairman of the executive committee of Cooperative Utilities Finance Corp. CUFC was incorporated as a non-profit cooperative under the District of Columbia Cooperative Association Act on October 28, 1970. It has \$7,500,000 in assets and has been organized and conducted to provide for rural electric systems serving primarily in the State of New Mexico.

I appreciate this opportunity to present CUFC's views concerning H.R. 4782, the Farm Credit Act Amendments of 1979.

CUFC has 11 distribution cooperatives furnishing electric service to the general public. One of its members has its own generating

facility of 70 MW. All of its members are organized and operate under the New Mexico Rural Electric Cooperative Act. Its members serve 79,815 consumers on 22,148 miles of line. This average of 3.6 consumers per mile of line is served primarily in the rural regions of nearly 50 percent of the State. The rest of the State is served by six electric cooperatives which are not members of CUFC and five investor-owner utilities. The members of CUFC have assets collectively of over \$101 million.

On May 11, 1973, Public Law 93-32 became effective which established a revolving fund outside the Federal budget for insured and guaranteed loans under the Rural Electrification Act.

The REA Administrator can guarantee private loans made to REA borrowers by CUFC for the full amount and without charge. The interest rate is to be agreed upon by the borrower and the lender. CUFC makes long-term loans to its members in conjunction with the primary lender, REA, in order to provide financing for the planning, initiation, and execution of their rural electric programs, projects, and undertakings. Such loans are secured ratably under a common mortgage and security agreement.

Funds for CUFC's lending program may be derived from payments under Capital Term Certificates, short-term borrowings from Wichita Bank for Cooperatives. Senior indebtedness may include the sale of long- and short-term senior debt obligations, either publicly or privately. The amount of such senior indebtedness will depend upon future capital requirements of CUFC, market conditions, the availability of additional capital from its members and the amount of capital term certificates and other subordinated obligations outstanding, margins, and other restrictions on additional senior indebtedness which may be imposed upon CUFC by instruments governing its outstanding securities.

Until December 15, 1981, CUFC has a credit agreement with Wichita Bank for Cooperatives for not exceeding \$35,000,000. Management believes that this amount is sufficient to cover members' needs through that period. The borrowings from Wichita Bank for Cooperatives have the same maturities as CUFC's long-term loans to its members funded thereby. Capital market conditions may in the future require CUFC to finance its long-term loans to members through debt securities having shorter maturities than the loans and if refinancing were unavailable, there could be an adverse effect upon CUFC's operations and financial conditions. Prior loans not funded by WBC borrowings were funded by proceeds from the sale of prior series of capital term certificates and from earnings; the maturities of the capital term certificates are longer than the maturities of CUFC's loans.

As of this date, CUFC has advanced loans to members through the Wichita Bank for Cooperatives agreement in the amount of \$1,778,500 with notes for an additional \$1,185,000 to be advanced in the near future.

The borrowing from Wichita Bank for Cooperatives is pursuant to a loan agreement dated February 16, 1977. Advances from WBC are subject to two ceilings:

(a) CUFC must maintain a loan to member investment ratio of not higher than 12 to 1. Currently, CUFC could borrow the entire \$35 million within such ceiling.

(b) Advances cannot exceed WBC's regular term loan lending limit from time to time, until WBC has advised CUFC that such excess amount qualifies for handling under applicable "look through" regulations of the Farm Credit Administration. For this purpose, CUFC must furnish WBC adequate financial reports on the affairs of its borrowers so that WBC can determine that the financial condition, repayment capacity, and other factors reasonably justify the credit granted to CUFC. Management does not foresee a problem with meeting this ceiling.

The loan agreement further imposes certain duties and restrictions on CUFC. Among these is the requirement that a rural electric cooperative is eligible to borrow from a bank for cooperatives if not less than 70 percent of its voting control is held by farmer members or eligible farmer organizations. CUFC is currently eligible to borrow from a bank for cooperatives if not less than 80 percent of the members are eligible under the 70 percent test. Although WBC has determined that CUFC is currently eligible, there is no assurance that changes in the character of its members' service areas will not adversely affect eligibility, and eligibility is extremely important to CUFC and its members to maintain its purpose.

There are many pressures which can change the character of service for a cooperative yet do not change its "rural area" nature.

Since the late thirties, cooperatives have been organized and functioning in New Mexico under the Federal rural electrification program. Cooperatives, as nonprofit membership corporations are "for the purpose of supplying electric energy and promoting and extending the use thereof in rural areas." Rural area means any area not included within the boundaries of a municipality over 5,000 persons, except that a smaller municipality is excluded if it is already served by another noncooperative utility and a municipality of any size is included if at the commencement of the cooperative's or its predecessor's operations the population was less than 5,000. CUFC members serve many municipalities within its rural areas. Since their institution service to ranches and farms primarily has expanded to broad types of residential, commercial and industrial service as business and industrial works developed in rural areas.

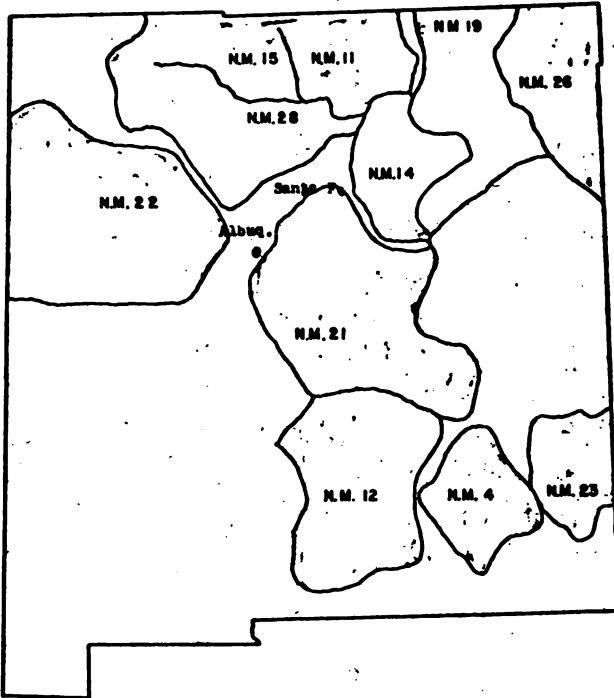
Though the 1973 law changed the loan program, it still provides for a 2-percent per annum interest rate called the special rate. A minority of CUFC members currently qualify. However, criteria for the special rate are anticipated to be modified. CUFC is currently unable to estimate such changes or their effect upon those members currently qualifying, except that management expects the availability of the special rate to be more restricted.

Not only will the lack of availability of the special rate increase the demand for loan funds but further Federal and State legislative and administrative action is anticipated, due to the evolving public recognition of the national energy crises and the growing public concern with rising energy costs. Environmental, health and safety regulations are continuing to impose increased capital and operating costs

on cooperatives like other electric industry members. Compliance with present and future laws and regulations may incur substantial costs in generating, transmitting and distributing electric energy. The siting of powerplants and transmission is, in addition to being subject to Federal and State laws and regulations governing air, water and noise quality control, subject to Public Service Commission jurisdiction over certain environmental matters. In implementing the National Environmental Policy Act, REA requires observance by borrowers of all applicable Federal and State environmental protection requirements and has established procedures to obtain and evaluate the environmental impact of significant rural electrification projects for which REA financing is sought. Similar environmental procedures have been enforced concerning other Federal actions which must be sought by cooperatives, such as easements across the extensive Federal lands within New Mexico. CUFC cannot predict the effect of these laws and regulations except to expect increase in the funding needs of its members.

As mentioned, 80 percent of CUFC members do currently meet the eligibility requirements of 70 percent. However, as illustrated, conditions are present which are changing the characteristics of rural areas. Many of the conditions are due to national problems, and regulatory procedures which are beyond the scope of a single rural entity. Further, national demographic changes are occurring which add to the problems of serving rural areas. Rural Electric Cooperatives must have the financing available to serve in this environment for they are required to provide service to whomever requests it within their area. The operational and financial pressures are immense. Supplemental financing through CUFC and Wichita Bank for Cooperatives has proved to be an excellent means to provide funds to meet these challenges. However, if conditions, which are largely beyond the control of rural cooperatives, continue to change their characteristics, many will not qualify for Wichita Bank for Cooperatives loans—a situation which would add immensely to the difficulties already encountered in serving rural areas. We respectfully request that this subcommittee seriously consider reducing this eligibility requirement to at least 60 percent or even further such that CUFC and its membership may not have closed to them, sometime in the future, one means to finance the challenge of this change. The Cooperative Utilities Finance Corp. is grateful for the opportunity to express its views before this subcommittee. I would be pleased to respond to any questions.

C. U. F. C. MEMBERS SERVICE AREA
NEW MEXICO



N.M. 4 Central Valley Electric
Cooperative, Inc.
Artesia, New Mexico

N.M. 11 Kit Carson Electric
Cooperative, Inc.
Taos, New Mexico

N.M. 12 Otero County Electric
Cooperative, Inc.
Cloudcroft, New Mexico

N.M. 14 Mora-San Miguel Electric
Cooperative, Inc.
Mora, New Mexico

N.M. 15 Northern Rio Arriba Electric
Cooperative, Inc.
Chama, New Mexico

N.M. 19 Springer Electric Cooperative, Inc.
Springer, New Mexico

N.M. 21 Central N.M. Electric
Cooperative, Inc.
Mountainair, New Mexico

N.M. 22 Continental Divide Electric
Cooperative, Inc.
Grants, New Mexico

N.M. 23 Lea County Electric
Cooperative, Inc.
Lovington, New Mexico

N.M. 26 Southwestern Electric
Cooperative, Inc.
Clayton, New Mexico

N.M. 28 Jemez Mountains Electric
Cooperative, Inc.
Española, New Mexico

Mr. MARTIN. I would like to make a couple of statements that are not contained herein, and CUFC does not do short-term financing for its members. We elected originally to do a long-term financing, and we look at the bond market and then WBC and decided WBC was our best opportunity and cheapest financing available for our members, and with some of our consumers that have a 1.5 members per mile of line it becomes very important that the cheapest interest rate is available to that member.

The member, if it qualifies, can go to the Bank for Cooperatives and borrow direct. They are not prohibited from doing so, and so we encourage members to do their short-term financing which is necessary sometimes for Capital expenditures which were not expected and the regulatory lag before the commissions, it is necessary that they do have some short-term financing. And by then being qualified under the Farm Credit Act, they can go directly to Wichita Bank for Cooperatives, and I'm speaking of all electric cooperatives throughout the United States, now, not just the members of CUFC, because there's other co-ops in the United States that meet this financing.

We support this for their benefit as well as CUFC's. Thank you.

Mr. JONES of Tennessee. Thank you very much, Mr. Martin.

Our next witness is Mr. Richard Powers, president of Garden National Bank of Garden City, Kans. Welcome Mr. Powers; we are delighted that you could take the time to be here with us today.

STATEMENT OF RICHARD D. POWERS, PRESIDENT, GARDEN NATIONAL BANK, GARDEN CITY, KANS.

Mr. POWERS. Mr. Chairman and members of the subcommittee, I am Richard D. Powers, president of the Garden National Bank, Garden City, Kans. I appreciate this opportunity to present the bank's views concerning H.R. 4782, the Farm Credit Act Amendment of 1979.

Our bank wholeheartedly endorses the proposed amendment and urges you to recommend its passage. Garden City, Kans., is located in the southwestern corner of the State. It is a community of over 22,000 persons. Our prime industry is agriculture and "agri"-related businesses. Irrigated corn, feed grain corn, and cattle take enormous amounts of credit to finance. Our bank has \$47 million in total assets and \$30 million in loans. Fifty percent of our loans are "agri"-related.

Historically, banks located in agricultural areas have a difficult time meeting the credit needs of their customers, and our bank is certainly no exception. Since 1975, our loans have increased 10 percent per year, while our deposits have only increased 7 percent per year. You can readily see this spread is growing wider and wider, and making it increasingly difficult for our bank to meet the credit needs of our trade area.

To assist us in handling the overlines and excess loans, we entered into an agreement with the Garden City Production Credit Association to participate in our excess loans. We had found it difficult, in times of tight credit, to obtain the necessary excess loan funds from our commercial correspondent banks as their credit needs were very similar to ours and we both had a tightness of funds at the same time. We felt by entering an agreement with the Production Credit Association we

would, then, have the necessary tool to assist us in handling our excess loan needs.

I am sorry to say that this was not the case as the arrangement did not have the success we anticipated.

Our borrowers resist purchasing stock or participation certificates as now required under section 2.13(f) of the Farm Credit Act, Public Law 92—181. Our borrowers have told me that if they are going to be required to purchase stock or participation certificates, they might as well deal directly with the Production Credit Association.

It is not our desire or the desire of other commercial banks to send our customers to a competitor. Under this Farm Credit Act, it is difficult to sell a participation as it is time consuming and inconvenient to require our borrower to come into the bank before a participation can be completed.

From a competitive situation, we prefer our borrowers to deal only with the bank and not be required to deal with both the bank and the Production Credit Association. We like to deal with our customers on a direct basis, and it would be much more attractive to all commercial banks that are working with Production Credit Associations to own the qualifying shares so that the commercial banks may, then, deal directly with the customer and not involve the association.

We commercial banks strive to keep our agricultural customers; and as long as we are dealing with them on a 1-to-1 basis, the question does not come up of switching their alliances to a competitor.

I sincerely feel that by adopting the proposed amendment it would make the participation program much more attractive to both our borrowers and commercial banks needing this service.

There is definitely a need for a closer working relationship between commercial banks and Production Credit Associations in obtaining loan funds. Passage of the 1979 amendment would make this goal a reality.

Thank you for the time. That's my presentation.

Mr. JONES of Tennessee. Thank you very much, Mr. Powers. We appreciate that. I find that you are in Mr. Sebelius' district.

Mr. POWERS. I certainly am.

Mr. JONES of Tennessee. Our next witness is Jerold Harris, vice president and secretary of Wichita Federal Land Bank. Mr. Harris, welcome.

STATEMENT OF JEROLD L. HARRIS, SENIOR VICE PRESIDENT/SECRETARY, FEDERAL LAND BANK OF WICHITA, WICHITA, KANS.

Mr. HARRIS. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee, I am Jerold L. Harris, senior vice president and secretary of the Federal Land Bank of Wichita. Our bank currently provides in excess of \$3 billion in long-term real estate loans serving more than 50,000 agricultural producers in four States in the very heart of the Nation's wheat and livestock belt. The Federal Land Bank of Wichita is one of 37 banks in the farm credit system which provides approximately \$50 billion or roughly one-third of the Nation's total agricultural credit. I welcome and appreciate this opportunity to present the views of the

Federal Land Bank of Wichita concerning H.R. 4782, the Farm Credit Act Amendments of 1979.

My 16 years' experience in the farm credit system, occupying several positions serving rural people, personally making numerous farm and ranch appraisals, and committee millions of dollars in loans for the bank, provide the background and experience for my support of this legislation.

While in full support of the legislation, I am here to address and endorse the specific proposal in H.R. 4782 which would permit Federal land Banks to make loans in excess of 85 percent of the appraised value of the real estate security when loan guarantees are provided by governmental units. Beginning in 1971, the Federal Land Bank of Wichita through joint and participating lending with the Farmers Home Administration has made hundreds of helpful farm real estate loans each year to low equity and higher risk borrowers, primarily to young farmers entering or expanding agricultural enterprises. Other banks of the farm credit system have had similar good experience. Recently, however, the Farmers Home Administration has shifted away from such participating loans in deference to guaranteeing loans made by private lenders. Consequently, Federal land bank credit requirements and a lending limit not to exceed 85 percent of appraised value preclude the Federal land bank serving alone the usual high credit needs of such borrowers. Herein lie the major impetus for this proposed legislative amendment.

This modification of the act would enable Federal land banks to continue serving many agricultural producers by permitting loans in excess of 85 percent of appraised value of real estate security when guarantees are provided by governmental units. Such guarantees could be extended by Farmers Home Administration, Small Business Administration, and certain State governmental agencies. The guarantee feature in effect would substitute for collateral equity for higher risk yet worthy borrowers, and therefore avert dilution of system lending standards and bond collateral.

Farm real estate represents approximately three-fourths of the total assets in agriculture. This production resource must continue to be transferred into the hands of a generation of younger farmers who typically have low equity positions requiring lenders to be very responsive to their credit needs. Surely it is in the best interest of agriculture for some of its younger generation to continue in the footsteps of their forefathers. The Federal land bank and the Farmers Home Administration have financed many such real estate transactions through the joint and participating loan program. With emphasis now being placed upon a guaranteed loan program in lieu of participating loans, the removal of the 85 percent loan limit as proposed in H.R. 4782 will enable the farm credit system to assist agriculture in transferring land to younger generations.

One of the very basic principles upon which Congress founded the Federal land banks in 1916 was to insure agriculture a dependable source of long-term financing. The cyclical nature of the agricultural industry has required lenders to have flexibility to remain with its borrowers when they experience less-than-favorable weather condi-

tions or commodity prices. Without a doubt agriculture remains subject to and will continue to experience such periods when they must rely on their real estate equity to see them through to better days. The authority to waive the 85 percent limitation on guaranteed loans would enhance the ability of the Federal land banks to help agricultural producers withstand the rather sharp and extensive economic and climatic cycles of their profession.

The enactment of this legislation, in my opinion, is in the best interest of the public as it will assist the long-established, reputable, cooperative farm credit system to better serve the financial needs of the Nation's agriculture.

Gentlemen, on behalf of the Federal Land Bank of Wichita I am grateful for this opportunity to express our views before this subcommittee and to endorse and encourage the enactment of H.R. 4782. Thank you.

Mr. JONES of Tennessee. Thank you, Mr. Harris. We appreciate the fact that you are here.

Our next witness is Jim Fee, Independent Insurance Agents of Kansas. Since we do not know who you are, just identify yourself.

**STATEMENT OF JAMES W. FEE, INDEPENDENT INSURANCE AGENTS
OF KANSAS, HUTCHINSON, KANS.**

Mr. FEE. Distinguished members of the Conservation and Credit Subcommittee, I'm Jim Fee, representing the Independent Insurance Agents of Kansas, and Fee Insurance Agency, Inc., of which I am the president and only stockholder.

It is a pleasure for me to be here today and thank you for allowing me to appear before you. I also appreciate the committee coming to Kansas so that people and interested groups from this area can more conveniently convey to you their views and concerns.

The Independent Insurance Agents of Kansas is an association with approximately 690 member agencies representing more than 2,500 agents and employees throughout the State.

As small businessmen and businesswomen, we support the private enterprise system of insurance. Our primary interest is in selling and servicing property and casualty coverages and in keeping such interest free from unfair competition.

Our purpose today is to express our concern regarding the sale of property and casualty insurance by production credit associations and Federal land bank associations—Federal instrumentalities established primarily to serve the credit needs of farmers.

In Kansas, production credit associations and Federal land bank associations currently restrict their insurance activities to selling credit life, credit disability, and crop hail insurance. However, in other States production credit associations and Federal land bank associations are selling property and casualty insurance in a manner contrary to legislative intent as expressed in the Farm Credit Act of 1971 and to the Farm Credit Administration's rules and regulations.

Such activity is causing unfair competition with unaffiliated businesses and unless it is checked, the same situation could arise in Kansas.

To protect the primary function of extending agricultural credit and yet recognizing the needs of unaffiliated businesses, Congress in the

Farm Credit Act of 1971 permitted production credit associations and Federal land bank associations to sell certain, limited lines of property and casualty coverage.

Aside from credit life, credit disability, and crop hail, their insurance activities were limited to insurance on collateral for loans, and then only if the need for such service had been established and if the Farm Credit Administration, production credit associations and Federal land bank associations in three federal land bank districts—Columbia, S.C., St. Louis, and New Orleans—have been offering property and casualty services to their loan customers.

They are doing so, however, at the expense of independent businesses. With the Farm Credit Administration's broad interpretation of the term collateral and with its not enacting procedural guidelines for enforcing the need requirement, production credit associations and Federal land bank associations in these areas are virtually unlimited in writing property and liability coverages for farmers.

The Farm Credit Administration is interpreting collateral to include any of a farmer's assets that bear on his or her ability to repay a loan. We believe collateral should be given its commonly understood meaning—the assets that are specifically pledged as formal security to repay a loan. Such interpretation is what Congress intended. The conference report to the Farm Credit Act of 1971 states:

The conferees discussed at length the scope of insurance services that should properly be made available to eligible borrowers. It is felt that the sale of liability insurance, and any insurance on passenger automobiles, is not necessary and incident to the functions of the lending institutions; but that they should be able to sell such insurance as may be necessary to protect the loan. Thus credit life insurance could be sold in an amount appropriate to insure repayment of the loan, and insurance against loss of any collateral securing a loan could be sold for the full value of such collateral. It is of course not the intent of the conferees that the borrowers' insurance necessarily be purchased through the Farm credit system lender.

In regard to need requirement, the Farm Credit Administration is not enforcing its own regulations and board policy. The Farm Credit Act of 1971 permits PCA's and FLB's to provide "financially related services" to their borrowers provided the following regulation is met:

Bank Board approval for an association to offer a financially related service program shall be conditioned on the application of a feasibility determination including the following four criteria:

(1) Need for the service based on persuasive evidence that membership need for and interest in the proposed service is sufficient to insure that a quality service can be provided at reasonable cost and that similar service is not being provided adequately with regard to cost, quality and availability by others in the community.

It is our position that specific procedural guidelines should be established for determining the need to offer insurance through production credit associations and Federal land bank associations.

We have made such requests to the Farm Credit Administration, but to date our efforts have been unsuccessful. We believe that when a production credit association or Federal land bank association wishes to enter the property and casualty business they should publish a notice of intent in local newspapers. Interested parties should have the opportunity to comment, and district boards should determine the need for such services based on a preponderance of the evidence.

Several reasons exist for the limiting of FCA's and FLB's insurance activities. They enjoy several competitive advantages over independent insurance agents. They have the ability to tie insurance sales to credit which often leads to coercion on the part of the borrowers. They have detailed knowledge of a client's financial profile and existing insurance coverages and expirations. They can reduce operating costs with the income generated by insurance sales, and they can pass those overhead savings on to their customers through reduced loan rates. Also, they enjoy several local and State tax advantages and can borrow from Federal Intermediate Credit Banks which are exempt from Federal income tax.

In conclusion, we emphasize that farmers are our customers, too. We feel we can offer them a choice of coverages suited to their particular needs at the most advantageous terms. When it can be objectively determined that we cannot offer such services, then and only then would expanded production credit association and Federal land bank association insurance activities be justified.

Gentlemen, I thank you for hearing me out this morning.

I will stick around to answer any questions that you may have.

[The following information was submitted by Mr. Fee:]

**PROFESSIONAL INSURANCE AGENTS
OF KANSAS, INC.,
Topeka, Kans., October 2, 1979.**

To: Conservation and Credit Subcommittee, House Agriculture Committee.

The Professional Insurance Agents is a trade association made up of some 625 insurance agents through out the state of Kansas.

We whole heartedly support the testimony made by Mr. James Fee representing the Independent Insurance Agents of Kansas.

Sincerely,

GENE A. ELLIOTT, CPCU, CIC,
Past President.

Mr. JONES of Tennessee. Thank you very much, Mr. Fee.

Next is Mr. Alton Cook, president, Federal Intermediate Credit Bank of Wichita. Welcome, Mr. Cook.

**STATEMENT OF ALTON B. COOK, PRESIDENT, FEDERAL
INTERMEDIATE CREDIT BANK, WICHITA, KANS.**

Mr. Cook. Mr. Chairman and members of the subcommittee, I am Alton B. Cook, president of the Federal Intermediate Credit Bank of Wichita.

Our bank has about \$1.3 billion in assets. The Farm Credit System provides approximately \$50 billion or roughly one-third of the Nation's total agricultural credit. I would say I appreciate this opportunity to present the Federal Intermediate Credit Bank of Wichita's views concerning H.R. 4782, the Farm Credit Act Amendments of 1979.

The issues concerning the insurance programs provided through Farm Credit System institutions are not a part of the legislative proposals incorporated into the Farm Credit Amendments Act of 1979, which is H.R. 4782, and we see no virtue in addressing these insurance programs through additional amendments to the proposed legislation.

The policy and objectives of Congress, as defined in the Farm Credit Act of 1971, state, in part, that the Farm Credit System is "to provide ind, adequate, and constructive credit and closely related services."

Insurance services provided through production credit associations are part of the financially related services which the associations are permitted to provide for their members. These services are designed primarily to be of benefit to the member who elects to purchase them. They are provided strictly at the option of the member. Even where an available financially related service is required as a condition of the loan, the member has the option to purchase the service from the association or from any other available supplier.

Three insurance programs are presently available through production credit associations in the Wichita district. These are credit life insurance, credit disability income, and crop hail insurance. In each program, the coverage that may be purchased is related directly to the funds that are borrowed from the association and/or an expected source of repayment for the loan.

Property and casualty insurance is an authorized financially related service under the Farm Credit Act of 1971. While we presently do not actively provide this insurance for our members, we believe the present authority should remain as one of the clearly stated congressional objectives for the Farm Credit System.

Each of the insurance services available through Wichita district production credit associations is provided by more than one independent insurance company. Thus, there is an element of competition in the providing of these services within our district.

We have adequate controls to insure that there is no coercion involved when a member elects to participate in a financially related service. System employees may not receive commissions from the sale of insurance or other financially related services. Employee compensation is not based on the sale of financially related services. There have been no complaints from members or applicants in the Wichita district alleging employee coercion to purchase any financially related service provided by the association.

The authorized insurance services are closely related to the credit that is extended in that they provide financial protection for the member, his family, the agricultural production and/or the capital assets necessary for production.

These services are designed to reduce or eliminate a part of the stress that generally accompanies financial or physical adversity. The emphasis is to reduce the risk that the member naturally incurs in an agricultural venture to a more nearly controllable level.

Our primary business is that of serving American agriculture. Our entry into these insurance programs was the direct result of a demonstrated need and a desire on the part of our membership. We believe the competition we provide in the limited number of insurance services available through production credit associations is a service to American agriculture. We therefore urge that you preserve the authority that presently exists for our role in these financially related services, and that you report H.R. 4732 out of the subcommittee as it was introduced.

On behalf of our bank, I again want to express our gratitude for the opportunity to exercise our views before the subcommittee.

Thank you.

[The prepared statement of Mr. Cook follows:]

Statement of
Alton B. Cook
on behalf of the
Federal Intermediate Credit Bank of Wichita

Mr. Chairman and members of the Subcommittee, I am Alton B. Cook, President, Federal Intermediate Credit Bank of Wichita. My Bank has \$1,300,000,000.00 in assets. The Farm Credit System provides approximately \$50 billion or roughly one-third of the nation's total agricultural credit. I appreciate this opportunity to present the Federal Intermediate Credit Bank of Wichita's views concerning HR 4782, the Farm Credit Act Amendments of 1979.

EARNINGS AND RESERVES

The proposed legislative amendment will remove the statutory limitation on the maintenance level of Federal intermediate credit banks' legal reserve which is allocated to user institutions on a patronage basis. By removing the statutory limitation, discretionary authority for the maintenance of such reserve could be placed with Bank management under policy direction of the District Board of Directors. This would provide flexibility to management and boards for determining the degree of risk in each district based upon historic climatic and economic cycles as well as the type of agriculture unique to each district.

Based upon individual Federal intermediate credit bank determinations, the maintenance of such a reserve could introduce greater efficiency in Bank capital programs by maintaining adequate risk funds to preclude stock impairment. For example, the records of the Federal Intermediate Credit Bank of Wichita reveal the following:

December 31, 1971

Risk Funds

Provision for Losses	\$ -0-
Allocated Legal Reserve	6,257,742
Surplus - Reserved	5,257,332
Surplus - Other	<u>1,506,694</u>
Total Available Risk Funds	\$ 13,021,768
Loan Volume Outstanding 12/31/71	\$579,046,256
Total Assets 12/31/71	\$612,579,514
Risk Funds as a Percent of Outstanding Volume	2.25%
Risk Funds as a Percent of Total Assets	2.13%

December 31, 1978

Provision for Losses	\$	244,012
Allocated Legal Reserve		15,571,546
Surplus - Reserved		5,257,332
Surplus - Other		<u>1,506,694</u>
Total Available Risk Funds	\$	22,579,584
Loan Volume Outstanding 12/31/78	\$1,089,081,114	
Total Assets 12/31/78	\$1,122,484,934	
Risk Funds as a Percent of Outstanding Volume	2.07%	
Risk Funds as a Percent of Total Assets	2.01%	

It is obvious that with the statutory limitation, an arithmetical approach to developing risk funds does not keep pace with the risk involved in the Bank's loan portfolio or total assets.

The impact of the amendment on System borrowers would be insignificant because earnings goals for capital needs in the Bank would virtually remain unchanged. However, the amendment would permit a different utilization of such earnings but would not change the impact on the Bank's financial structure simply because of the change in legal reserve determinations. All Bank earnings, except for the limited amount placed in the provision for losses, will be retained in the Bank's capital structure.

We believe a recognition of risk dictated by prudent business practices rather than statutory limitations would enhance the investors' analysis of Federal intermediate credit banks which would have a favorable impact on their assessment of risk in System bonds and resulting interest rate levels.

We also believe the removal of the statutory limitation would permit Federal intermediate credit banks to develop a sound and constructive financial base which will permit them to maintain and enhance their ability to serve American agriculture consistent with Congressional policy which provides that a prosperous, productive agriculture is essential to a free nation. The Federal intermediate credit banks, as

a part of the farmer-owned cooperative Farm Credit System, is charged with the objective of improving the income and well being of American farmers and ranchers by furnishing sound, adequate and constructive credit and closely related services to them. This requires a sound financial structure to accomplish these objectives.

LOSS SHARING

The loss sharing proposals are designed to authorize (1) all Farm Credit institutions to enter into general loss sharing agreements with other Farm Credit institutions (without regard to the type of loss) and (2) Farm Credit Bank Systems to enter into such agreements with each other.

Presently, agreements exist under current law whereby Farm Credit institutions have agreed with other Farm Credit institutions to share specific losses if they were to occur that would impair the membership capital of an institution(s) absent such an agreement.

However, loss sharing agreements can provide an important means of enhancing the total viability of the System, especially if a loss does not have to reach capital stock impairment before it can be shared. The Farm Credit institutions believe that prudent business judgment mandates that they cooperate in taking joint precautionary measures in order to assure that the purpose of the System can be achieved.

Any agreements made possible by these amendments would contain many technical provisions which are beyond the scope of this statement. Speaking for the Federal Intermediate Credit Bank of Wichita in particular, and all Farm Credit Banks in general, it is truly reflective of the cooperative Farm Credit System's character that our institutions would be willing contributors to other Farm Credit institutions in their time of crisis, and would similarly be appreciative recipients in the event that a loss crisis would strike directly.

The remainder of this statement is designed to highlight the importance of these loss sharing proposals.


These proposals are desirable for the Farm Credit System, its borrowers and investors since they would:

- (1) Protect the access of the Farm Credit Banks to the money market and would protect the reputation of Farm Credit System institutions' debt instruments as low risk investments;
- (2) Protect the access of the Farm Credit Banks to the money market by minimizing the impact that adverse losses in any Bank or Banks would have on the bond market and other sources of funds for the System;
- (3) Allow for the continuation of a dependable credit service to farmers during any period when heavy losses may be encountered only in a regional area;
- (4) Protect farmer and farmer cooperative-stockholders against the loss of their own investment in the Farm Credit Banks and associations;
- (5) Allow the institutions to spread the risk of catastrophic loss over a broader financial base; and
- (6) Provide the investor with the protection of a contingency plan whereby repayment of his principal and interest on his investment in Farm Credit obligations would be timely met.

As a result, these loss sharing proposals will increase the assurance that each Bank and association in the Farm Credit System will maintain the viability to well serve American agriculture consistent with Congress' intent and policy as expressed in the Farm Credit Act of 1971 that a prosperous and productive agriculture be fostered.

The Federal Intermediate Credit Bank of Wichita is grateful for the opportunity to express its view before this Subcommittee.

Sincerely,


Alton B. Cook
President

Mr. JONES. of Tennessee. Thank you very much, Mr. Cook. We appreciate your comments and we will be calling you back for some questions.

I understand the next witness, Mr. Unruh, is not in the room, is that correct?

At this time I'm going to yield to Keith Sebelius for the purpose of introduction of some members of his staff.

Mr. SEBELIUS. We had the other members, I didn't know I had a member of my Salina office here. I would like to introduce Ida Mae Frick, from Salina. If you've got any problems start talking to her; that is, if you live in my district. I'm not soliciting business, Dan.

Mr. JONES of Tennessee. We appreciate very much your presence.

I am going to yield to Dan Glickman for purposes of introducing the next witness.

Mr. GLICKMAN. The next witness is Harold Shoaf with the Kansas Electric Cooperatives. Of course the rural cooperatives, electrical cooperatives, of this country have transformed the rural area. Mr. Shoaf has frequently visited my office in regard to a variety of problems, not only affecting electricity but also credit problems affecting rural America generally, so it is a pleasure to have him here.

STATEMENT OF HAROLD J. SHOAF, DIRECTOR OF GOVERNMENTAL RELATIONS AND PUBLIC AFFAIRS, KANSAS ELECTRIC COOPERATIVES, INC., TOPEKA, KANS.

Mr. SHOAF. Mr. Chairman, Congressman Sebelius and Congressman Glickman, my name is Harold Shoaf. I am Director of Governmental Relations and Public Affairs for the Kansas Electric Cooperatives, Inc. Kansas Electric Cooperatives, Inc., is the statewide association of all 38 rural electric cooperatives serving electricity to more than 450,000 Kansans.

The REC's of Kansas support the content of section 305(c) of H.R. 4782 which modifies the eligibility of a cooperative to borrow funds from Banks for Cooperatives. This modification, which reduces the requirement that voting control of the cooperative be held by farmers, producers, or harvesters of aquatic products, or eligible cooperatives, from 70 percent, in the case of rural utility cooperatives, to 60 percent for all cooperatives, will increase the number of cooperatives who are eligible for a loan from a Bank for Cooperatives. The increasing number of rural electric cooperative members who are non-farmers but live in rural areas is making it increasingly difficult for REC's to be eligible to borrow funds from Banks for Cooperatives.

H.R. 4782, section 305(c), would enable banks for cooperatives to better serve the credit needs of cooperatives in rural America and still retain the principle of farmer control as a condition of eligibility. At the 37th annual meeting of the National Rural Electric Cooperative Association held February 18 to 22, 1979, the voting delegates adopted a resolution that would require that farm membership be reduced from the present 70 percent to 51 percent as eligibility for a cooperative to borrow funds from a bank for cooperatives. Farmers would still retain control with the 51-percent membership requirement.

Results of the 1971 and 1975 amendments to the Farm Credit Act have permitted rural electric cooperatives in the United States to borrow \$1.3-billion to finance transmission, distribution and generation facilities to serve customers from the banks for cooperatives. Both modest short-term loans, as well as large scale, long-term loans to finance electric generation facilities have been borrowed by REC's.

Future financial needs of rural electrics will continue to increase. NRECA estimates REC loan needs of \$5 billion for 1980. The Rural Electrification Administration will be able to supply 20 percent of these funds or approximately \$1 billion through its insured loan program. The remainder of the \$4 billion of financing requirement must come from other sources, including banks for cooperatives.

Mr. JONES of Tennessee. Thank you very much, Mr. Shoaf.

Now, gentlemen, all of you who have been heard, will you proceed to the front.

Since Mr. Sebelius is a visiting Congressman today and not a member of the subcommittee, Dan and I are going to yield to him for the first question.

Mr. SEBELIUS. Thank you.

Mr. Leith, you do mention in your statement—of course we have discussed this lately on the subject of seeking stronger markets—but do you feel there is any additional type of legislation that, say, farm-land or cooperatives need to enhance their ability to export grain more vigorously?

Mr. LEITH. You mean, Congressman, in addition to the legislation we're talking about?

Mr. SEBELIUS. In addition to what we're talking about.

Mr. LEITH. Well, as I stated in my statement, I believe I used the word "alternate" or words to that effect, source of credit. Takes a lot of dollars when you're exporting grain and it's a specialized business, and I'm not a financial man. They can comment more precisely on this than I.

Get into exchange rates, things like that, it's an important and specialized field, a field of the money necessary to consolidate international commerce, and we feel while the export cooperatives obviously are getting money somewhere right now, that this does open up other fields and broadens it somewhat.

Other than credit, it's hard to know where to start and where to stop in international trading grain. The cooperatives are making progress which we feel is important.

The exportation of grain is one of the most important economic facts of life in this country, bar none. And it is of concern that this is in relatively few hands, and this is documented, it's in relatively few hands, in the hands of the companies—I'm not criticizing them, but just looking at the facts of life—in the hands of companies, some of them privately owned, international in scope, broad in many, many activities, very large companies, and we feel it is good for the U.S. farmer and good for the American people in general for there to be competition.

Mr. SEBELIUS. You feel that credit would be one of the main tools that you need in addition to help you in that field?

Mr. LEITH. Credit is one of the main tools. It doesn't solve all the problems. You have groups of organizations going together, you have problems. But we feel progress has been made, but we feel this is one that would help.

Mr. SEBELIUS. Thank you. Mr. Powers, because of your experience with trying to do with the extra agreement with the PCA there in Garden City and otherwise, do you feel that the section 213 which as proposed is one that would authorize your bank to do the handling of certificates and so forth as far as your work with them? Do you think that would solve the problem you have now as far as your customers and having to go to the bank?

Mr. POWERS. It would be a great help, because at this time, like I mentioned in my testimony, there is a great resistance of our borrower buying those certificates for stock. And we could own the stock ourselves, so we could participate with PCA, very definitely.

Mr. SEBELIUS. Mr. Fee, you commented on the subject in some of the other districts, but not in Kansas. Credit life, credit disability, and crop hail, you don't complain about that too much, as far as items which—

Mr. FEE. Well, it's not that I don't complain about it, I think it's an economic fact of life, Congressman, and I don't intend to reverse what has already been done, but I very vehemently am opposed to any further intervention in our business.

Mr. SEBELIUS. You feel as independent insurance agents it shouldn't be tied to credit?

Mr. FEE. Absolutely not.

Mr. SEBELIUS. You were talking with Chairman Jones here on the subject of pilot projects that were noted there, and you feel that's sort of a toe in the door, so to speak, foot in the door?

Mr. FEE. Yes, sir. I do. As a matter of fact, I'm aware of a number of PCA's, FLB's within the State of Kansas who have already licensed representatives of their organizations preliminary to entering into the insurance business in Kansas.

Mr. SEBELIUS. Well, Mr. Cook testified that as far as the intermediate bank that they sell just the three items and that the individual selling it gets no commission; is that correct?

Mr. COOK. That is correct, sir.

Mr. SEBELIUS. So there is no incentive for him to do it other than service to the borrower?

Mr. COOK. That is correct.

Mr. SEBELIUS. My question is do the employees get any commission?

Mr. COOK. No, sir. None whatsoever.

Mr. SEBELIUS. And they write for any companies that you or your organization sees fit to contract with?

Mr. COOK. They must be approved by our bank before they write insurance for them.

Mr. SEBELIUS. I thank you all for coming, and for my opportunity to participate in this part of it because I have learned a lot this morning, and will hope to learn more this afternoon.

Mr. JONES of Tennessee. Thank you very much. Those were very appropriate questions to be asked of such a distinguished panel as this.

I now yield to my good friend Dan Glickman.

Mr. GLICKMAN. Thank you, Mr. Chairman.

Before I start, I might make one point in reference to the farm exports. Last month there was national publicity about the House passage of an amendment on an Export Administration Act which tied grain sales to Soviet troops in Cuba. That amendment was deleted, the bill has been approved, and it has been signed into law, but I felt it was very unwise, as I think the President's advisor Mr. Brzezinski says, to cut off your toe to make sure that your hand feels all right. I just thought I would mention that right now.

I would like for the gentleman, Mr. Powers, and anybody else here, to comment generally on the state of farm credit, credit generally in Kansas in terms of tightness of credit, in terms of the amount of insolvencies, and in terms of where you feel this credit situation right now is.

Mr. POWERS. Credit in southwestern Kansas is very, very tight. As you know, our farmers have not sold their wheat, it's liquid, but it's setting there in granaries on the farm or in terminal stages, and our deposits have not increased and our fall operating loans are needing to be made for the planting of wheat and cattle members are increasing some, and the price has doubled, so our need for credit in our particular part of the State is just tremendous. Overwhelming, in fact, because if it weren't for the PCA or Federal intermediate bank, the commercial banks cannot possibly serve the capital needs.

Mr. GLICKMAN. Wonder if anybody else has any comments? How about the quality of loans out?

You know, when wheat prices and other commodity prices and livestock prices, were down, we had some very serious problems, we passed an act to enable the Farmers Home Administration to extend their credit lending authority.

What kind of improvement have you noticed in the last year in reference to farmers' credit problems?

Mr. POWERS. I think the FmHA has gone too far. I think they have gone into the commercial area. We've got the SBA going into farm loans, we've got FHA going into commercial loans, and neither know what they're doing, frankly.

Mr. GLICKMAN. And where does that leave you as a private banker?

Mr. POWERS. Well, still tight. So we're leaning upon the powers that be in the SBA and PCA.

Mr. GLICKMAN. I would like to ask you Mr. Leith, in your statement you indicated that this legislation may create confusion with cooperative associations owned and operated for the benefit of all their patrons. You talked about an amendment to require at least 20 percent of the "raw materials processed or marketed be furnished by the recipient of the loan under this provision."

I would like to ask you two questions, one, why 20 percent as opposed to 50 percent, and two, what specifically is the problem you're trying to get at by this provision?

Mr. LEITH. Congressman Glickman, the 20 percent is an arbitrary figure. It is a value judgment. In my statement, I said at least 20 percent.

The thought here is to make it of some consequence, you know, that it isn't 1 percent or 2 percent or 90 percent. I would have no quarrel with a higher figure.

I did say at least 20 percent. So this is a value judgment.

A lot like other things, it has been discussed among some cooperative people and there is some feeling that this might be a reasonable figure, something maybe close to it.

But what we are concerned about is that this is a new feature, a new authority, and I think conceivably you could have in the same town two processing or marketing facilities, one could be a cooperative financed by the bank for cooperatives, you could also have another facility that was financed by a P.C.A. or the Federal Land Bank Association. So I don't know, I think it could be confusing. You know some of these things people don't understand, and it's sort of a matter of we're getting in each other's hair and we would like to present that, keep things sort of in channels.

Mr. GLICKMAN. All right. You obviously want people in the agriculture business to be eligible for these loans. I gather, however, that you're trying to prevent financing of people who are outsiders in the area coming in, setting up a business and getting this financing by otherwise qualifying with the strict statutory aspects. Is that what you're really trying to get at here?

Mr. LEITH. That's right, Congressman Glickman.

I raised a couple of questions here that I'm not just sure of the answer, but we want to insure that the program won't be used in some ordinary commercial activities by someone that's a far distance from a bonafide agricultural producer. There's a lot of so-called agricultural producers, large business feeding cattle; are they agricultural producers?

Who would use this authority? Under what circumstances? And when you stop and think about it, I also raised the question about the smaller but still family farmer, he's too busy he may not have the credit base, or the inclination to get a loan to get in the processing, so does this become something for the so-called larger—where they are larger bonafide members or somebody else who are agricultural producers—

Mr. GLICKMAN. I would like to go back to a point that Mr. Powers talked about. Are we getting into an area where there's a great deal of confusion on either Government direct or guaranteed loans in a broad variety of farm related operations? I gather when you mentioned Farmers Home Administration came in and were making loans not anticipated beforehand, that we have expansion of authority here for a variety of farm credit banks, is the farmer being properly serviced, or is there a great deal of Government going all sorts of different ways and not really helping the farmer? Anybody have any comments on that?

Mr. LEITH. If I may just make a remark, I think the farm credit system in general is just doing a very fine job. I believe the gentleman who is vice president and secretary of the Federal Land Bank Association of Wichita talked about the total volume of business of \$50 million for the system. I believe it is the No. 1 lender of funds to agriculture.

But there is some confusion, obviously. You see some confusion here today on the part of the people and maybe there is a tendency to kind of reach a little bit and get away from some of the original intent of the legislation.

Mr. GLICKMAN. Well, I just have some concern there may not be any comprehensive planning as to the different arms of the Federal Government involved in on farm credit generally, otherwise it just goes scattered ways and ends up with programs that duplicate each other.

Mr. COOK. We're in the business of serving American agriculture, that's first and foremost. We see people who have no possible chance to survive the adversity, and the situations where we feel people might have been better off to have been forced to liquidate what they could, salvage what they could rather than continue financing which might send them down the drain.

Mr. GLICKMAN. Well, a lot that, though, because Congress basically mandated Farmers Home to pursue that.

Mr. COOK. Right.

Mr. GLICKMAN. I have some final questions on the insurance issue. Mr. Fee gave, I thought, a very candid and strong statement about the future of P.C.A.s offering a variety of non-loan-related insurance. Do you have any intention of offering these types of insurance that are being offered in other parts of the country?

Mr. COOK. I think some time in the future we would probably desire to do so. Primarily as a service to our people, to protect the collateral. Congressman Glickman, I can't speak from personal experience in our district, but we have found in other districts, however, that there is not adequate coverage to protect the collateral out there. In many instances the insurance has been provided many years ago and never been updated. We get into looking at the protection, it just isn't there. That's the service we hope to provide.

Mr. GLICKMAN. Can you solve that by making sure that before loans are made that insurance is in fact purchased through the private sector?

Mr. COOK. And we're doing it, as far as trying to be sure it is updated. If I can go back to one point I would like to make, a moment ago the conference report from the 1971 hearing was quoted, and there was one very significant thing, I think, which was not brought out, and I would like to repeat some of what was read to you, and I am quoting the conference report which stated that the conferees discussed at length the scope of insurance services that should properly be made available to eligible borrowers. It is felt that the sale of liability insurance and any insurance on passenger automobiles is not necessary and incident to the function of the lending institution.

There was also then the following statement: But they should be able to sell such an insurance as may be necessary to protect the loan.

So it was not necessarily the intent of the conference committee to prohibit that.

Mr. GLICKMAN. Right.

Mr. COOK. It was also mentioned that some people had been licensed to sell casualty insurance. I am not that familiar with insurance licenses. We do offer crop hail insurance and unless that is the same

license you sell casualty insurance, there is no PCA's eligible to sell casualty insurance today, and I believe there is no Federal land bank associations that have been licensed to sell.

Mr. GLICKMAN. I yield to the chairman.

Mr. JONES of Tennessee. I happened to be there on that, in reference to the conference report.

I think, however some people construe what was said in the report to be a little bit different as far as insurance goes. I must say that I think some of the banks read it a little differently from what the conferees really intended. I don't believe they expected the banks to go out and expand the insurance business over and above what they were doing at that time, credit life, and that type of insurance.

Mr. COOK. Surely.

Mr. JONES of Tennessee. Of course, you should have that protection.

Mr. GLICKMAN. Thank you, Mr. Chairman. I have no further questions. I would just like to say this has been very productive testimony.

Mr. JONES of Tennessee. I want to commend each witness for what you have said here this morning and we, the Subcommittee of Conservation and Credit, and I should say that we, the full Committee on Agriculture, believe that coming out to communities like this is what we need to do more of in order to really get the basic facts about what the needs are. We sit in Washington, listen to witnesses, and you get a little different perspective about the needs for agriculture than what you get when you come out into the communities.

Our full committee, as well as our subcommittees, have had the idea of going out as much as you possibly can. It is a difficult job, we have to select time to do it, because we can't do it when we are in session. and we have to take recesses to do it and hope for the best.

But I do commend each of you for what you have said. You have been very frank and very fair.

I must admit that I have a question that I want to ask some of you, because these things I discussed with the Governor of the Farm Credit Board, Farm Credit Administration and also some of the board members and, incidentally, Mr. Bob Dar is in the audience today. Bob is a consultant and formerly with two of the banks in Columbia, S.C. I appreciate the fact that you're here.

The insurance situation bothers me, I must admit.

Mr. Fee, I appreciate more than you know the fact of the statement that you made. It was good. I feel like that we have got to tread softly in this field. I want to see farm credit remain to be farm credit. I had early on, my dad did, with predution credit, in the changes made back in the depression days when you couldn't borrow money anywhere, and I have great respect for the bank for cooperatives, FICB's, FLB's, and all the various groups.

At the same time, I don't want to see us get too far out on a limb and get into somebody's else's bailiwick.

Mr. Powers, I believe it was you, talked about the Farm Credit Act of 1978 and that you thought that the FmHA's had gone too far.

Mr. POWERS. Yes, sir.

Mr. JONES of Tennessee. I want to say this also; I think our private lenders are responsible for some of that, because they were not doing the job, and I think that the way we wrote the Farm Credit Act of

1978 should put some support in there that would be of benefit to the private lenders today such as guaranteed and insured loans, and as time moves on, there's going to be less of the direct loan business, I feel sure, because I don't see any other way out except through the guaranteed and insured loan business.

And, granted, Farmers Home Administration may have gone too far in some respects, they've gotten into some areas that I wish they weren't in. SBA has gone much further than I wish they had gone, but that's another committee that I won't talk too much about. But we've had some disagreement among some of the things we do.

I want to present a question to all of you, and of course we have some professionals here who are with the banks, and I would just like to know what your feeling is. We talk big business, we've got this export possibility here, new proposals to the amendment, we've got an increase in the lending of FLB's, for farmland. And, Keith, you and I were there in 1971 when we updated this to 85 percent, and then we have gone out to aquatic people and we're making loans there now. We're just trying to meet agriculture's needs, but there's one thing I kind of thought the Farm Credit Administration would have, and I would like to know what your feelings are, we've got three branches of the vine, all responsible, and do a good job, in most instances.

Have you ever given any thought to the possibility of a consolidation of all three banks?

We're sitting here in the midst of a big corporation that has grown larger through either consolidation or purchasing, this is taking place all over the country; could the Farm Credit Administration do a better job, instead of having the banks of co-ops, FLB's and production credit associations; would we be better off with a consolidation of all three of them?

Anybody want to respond? That is a proposal that our committee has put to some of the members, the Governor and some of the other folks that are connected with the board, and we feel like that it is something that ought to be looked at rather seriously in the future. I don't know, I guess you will get by this time, H.R. 4782, without that being given much consideration. But I think the time is approaching when that is going to be looked at rather seriously.

Since I got no response—I didn't expect any, to be quite frank—I want to present another proposal that has been on my mind for these 11 years that I have been in Washington on the committee, and when I saw the update of the Farm Credit Act of 1971, but I haven't seen all that I would be pleased with if we would do it. Agriculture, I don't have to tell you people in Kansas, is big business, and it is getting bigger every day, and I come from an area where farmers are not as large as they are out here, yet they have repayments problems for what they borrow as well as the farmers here no doubt do. I'm proud that wheat is the price it is, I'm glad it's doing as well as it is now. I know it's a lot better than it was what, about a year ago?

Mr. SEBELIUS. Yes.

Mr. JONES of Tennessee. It's sad about some of the things that was going on, but agriculture, as some of you witnesses said here today, and I believe Mr. Leith commented on this, that we are moving in the

direction of bigger and bigger export businesses, and I think that is the real hope for American agriculture, truthfully.

I have thought for a good while that the production credit associations especially needed to be able to make a longer operating loan than they do—today it's 7 years—and I've had a lot of people talk to me, farmers, that we would like to see PCA be updated like back in 1971 where they could lend more of the appraised value of land to where they can get a longer extension, payback provision in their note.

Now, I wonder if there's any comment here on that subject. Anybody in the audience want to comment?

Mr. COOK. I'll just say this now, there's no doubt instances in the production credit association in our district where it might be used. We considered it and our board considered it, we talked to our association about it. We don't feel it would be used enough in our district to be of any benefit and so we would support leaving it as it is.

Mr. JONES of Tennessee. Are the PCA's actively lending out here? Is it big business out here, production credit?

Mr. COOK. Oh, yes.

Mr. JONES of Tennessee. But, of course, there's a ballooning provision. I know some of them do that.

Mr. COOK. Yes.

Mr. JONES of Tennessee. Any other questions? Anybody in the audience have a question? We've got a little time here. Any of the witnesses have a question? This has been a delightful morning.

Mr. FEE. I would like to rebut the statement the gentleman from Wichita made about the fact of the independent insurance agents and farm bureaus and other insuring agencies within the State of Kansas—that's the only statement I'm intimately familiar with—does not provide insurance to value for farmers, that this poses a problem to the lending institution.

I would like to rebut that by saying the farmers that I deal with on a day-to-day basis are in the business of taking risks themselves when they put the seed in the soil, it is not at all uncommon for them to self-insure their property to a certain extent, and so it doesn't surprise me at all, sir, that you would find situations where farmers are underinsured.

I think they're underinsured for a purpose.

And at the time of securing a loan, which could very well be over the amount of insurance that they have, there's no problem as far as the agents that I'm familiar with and the farm bureau which writes a tremendous amount of insurance within this State, to increase the coverage and we would welcome the opportunity to do so.

Mr. SEBELIUS. I would like to comment, Mr. Chairman, if I could that I just paid my car and house insurance and it's well over a thousand dollars. I'm about ready to go self-insured myself.

But I can understand casualty insurance and so forth, yes, by some stretch of the imagination you could get into casualty insurance, you could get into fire insurance on the building, but I think that with the requirements that certain things be there, the private sector could certainly write what fills the bill between our various farm organizations, farmers union, farm bureau, all the various companies we have. I think you can get adequate coverage; and I hope you stay out of that part of it.

Mr. FEE. Thank you. I do, too, sir.

Mr. BURNSIDE. I'm John Burnside, president of Fidelity State Bank, Garden City, Kans. I'm a competitor of Dick's, but we're very good friends.

I want to tell you I have been in the banking business—this is my 47th year, and I'm in southwest Kansas, and if we hadn't had the production credit association as lenders, we could not have served the farmers.

Our bank is about 65 percent agri loans, agriculture or agri loans related, and in the area where we, Dick and I, are, it would have been absolutely impossible to have serviced the farmers if it hadn't been for the fine production credit association.

I think I'm correct when I say that the one in Garden City is the largest in this area, and one of the largest in the United States. Thank you.

Mr. JONES of Tennessee. Thank you very much. Mr. Burnside. Very good statement. I think what you said will carry the same feeling throughout the country as far as what PCA has been doing to keep farmers in business.

Mr. LEITH. I just add that, gentlemen, I think all of us have been impressed with your deep knowledge and understanding of farm credit and the subject we're talking about here today. You did throw out some pretty far ranging ideas and nobody commented on them. I think we should never be afraid in the job that we have to do for farmers to look at new ideas, to examine them very carefully, and do it in a careful and constructive way.

One of the factors facing farmers these days are rising costs. We see the price of wheat and cattle up, but we tend to forget the price of energy is up and all farmers' costs, including credit, is up.

This is the other side of the equation and it only goes in one direction, up. Farmers prices go up and down. So, therefore, anything that can be done to attack the whole cost of equation of agriculture, whether it be the cost of credit or energy and things like that—and we have been pleased with the support that Congress has given in the energy field help get energy for farmers, because certainly they need it, and other farm costs including credit.

And whether we can reduce the cost a little bit, to get refunds back to the farmers, et cetera, from the system, it all adds up to improving the welfare of farmers, and we know what the deep interest of you gentlemen in agriculture is, you're certainly in sympathy with that and anything that's been done to lower costs as well as raise the prices, the better off we're going to be.

I think the preservation of a stable producing agriculture in this country could be one of the greatest sources of strength in the United States of America.

Mr. JONES of Tennessee. Thank you, Mr. Leith. And I agree with that last statement 100 percent. I think it is the savior for this country. I feel very good personally and I think all members of our full committee do, that we, agriculture, has a great future. You have just got to direct it in the right way, and credit is one of the prime factors you've got to be faced with, credit management responsibility upon the part of the man who borrows the money and then it is up to our handlers of

grain and other agricultural commodities to see that they are marketed in the right way.

Let me add something here that really has nothing to do with what the subject is today. Keith, you and Dan, I know, both agree that we think these 25 officers that are being spread over the United States by the Secretary of Agriculture—over the world—are going to really mean something to the future of our trade.

Mr. SEBELIUS. Yes.

Mr. GLICKMAN. Yes.

Mr. JONES of Tennessee. He told me week before last that they're getting underway now.

So we do appreciate the opportunity of being here and having this fine audience to deal with. I think everybody is very, very sincere about what they're saying and what they mean.

It is now 11:40, and we're on time, we will come back at 1 o'clock. We will recess until 1 o'clock and this afternoon when we will be primarily talking about the Great Plains program and maybe conservation.

AFTERNOON SESSION

Mr. JONES of Tennessee. Gentlemen, we will start our hearings. We had to pass up one gentleman this morning, and I will briefly explain to those who are here for the afternoon session, in case you weren't here this morning, that we go through the entire witness list and then we ask the questions to all of you when we're finished. We call all of you back up here and any questions that the members of the committee have will be directed to you at that time.

If you have a statement that you want summarized, you may do so, and the entire printed text will be put in the record just as though you read it. We do have a long list, so we do have to move on. I'm going to call Mr. Galen Unruh of the First National Bank of Liberal, Kans.

Keith, you may want to introduce Mr. Unruh, because he is from your district. Mr. Unruh, are you here?

Mr. SEBELIUS. Galen is out from Liberal, and for those of you that aren't knowledgeable to the fact, there are more Unruh's than anything else in that section of Kansas.

Just sit right there, Galen. We're glad to have you. We heard the others on credit, so you are the last one and then we will turn to soil conservation. We appreciate your coming and giving us your thoughts today.

STATEMENT OF GALEN UNRUH, ASSISTANT VICE PRESIDENT, FIRST NATIONAL BANK, LIBERAL, KANS.

Mr. UNRUH. I hope I can live up to the high standards set by most Unruh's in this area.

First of all, I appreciate the opportunity to appear here before this hearing and discuss some things with you about the Farmers Home Administration and some thoughts that our bank has, and I'm sure other lenders would share our thoughts equally as much as we do.

First of all, the Farmers Home Administration presently has many outstanding credit programs. Some of these include:

Farm ownership loans, direct and guaranteed; business and industry loans, which is a guaranteed lending program; there are operating loans; guaranteed livestock loans; guaranteed economic emergency loans, and guaranteed operating loans.

Obviously, there are many other valuable and useful Farmers Home Administration lending programs. Without question, the agency itself offers a fabulous service not only to the farmer but to the local lender as well. Farmers Home Administration's lending programs provide the flexibility and the funds needed in today's agriculture. The resource of credit through the Farmers Home Administration lending programs, without question, should not be undermined.

The previously mentioned lending programs are most helpful, but oftentimes, there are problems in each lending program. To be more specific, the local lender and borrower often need the understanding and cooperation of the county supervisor. This relationship is found to be most inconsistent from county to county. Merely as a suggestion, a formal review at the county level might be necessary to correct this deficiency. This deficiency not only creates animosity toward the Farmers Home Administration, but leads to an even greater struggle for the borrower. Conversely, the county supervisor who is dedicated and cooperative tends to create the problem in reverse of a heavy workload. Accordingly, understaffing leads to long delays and in general, a lack of timeliness.

A second problem that is readily noticed at the county level is that of the county credit committees meeting on a regular scheduled monthly basis. In times of high credit demand, for example, spring crop planting, the county committee obviously finds it most difficult to meet on all credit applications on a timely basis. Therefore, the committee creates a backlog and an inefficiency in the agency itself which leads to poor management and a lack of available credit for the farm customer. During the busy season, a more frequent county credit committee meeting could possibly improve the efficiency of the agency and eliminate some of the problems created by the lack of available credit in times of necessity.

Many times our bank has financed interim funds based upon an approval or commitment from the Farmers Home Administration. At times, customers have requested money on interim debt because of lack of funding and other times because of a lack of timeliness. These problems do not lead to the benefit of the farmer or the agency. Because of these problems, the agency receives a great deal of criticism and ridicule.

As an example of this situation, visiting this past week with one of our local county supervisors, the very minimum amount of time it would take to have a credit application reviewed and either approved or denied would be at least 60 days. In times of credit necessity, this is quite untimely.

I offer the following suggestions: The promotion and utilization of the guaranteed lending programs through the local lender. With the cooperation of a dedicated county supervisor, these programs would allow for a much more timely and efficient handling of the credit for the farm customer. As a result, the agency itself would receive much more creditability.

Regarding the guaranteed economic emergency lending program, which was developed as a result of the Agriculture Credit Act of 1978, several points should be made.

One: The program enables the local lender to assist borrowers who are in a leveraged financial position, for example, the 90-percent guaranty allows the local lender to provide credit for a borrower in times when normal credit relationships do not exist.

Two: It allows the local lender to still handle the credit and as a result cut down the traffic in the county FmHA office.

Three: The structure is too short term to allow for adequate results.

Four: The program enables the local lender to use bank funds and create funds for other programs that are financed directly through the Farmers Home Administration.

To emphasize this point, I refer to my letter dated September 11, 1979, to Senators Kassebaum, Dole, and Representative Sebelius.

The Farmers Home Administration economic emergency loan program is utilized in many areas for the benefit of people who have suffered losses in years past. With the Farmers Home Administration guaranty, the local lender is able to extend credit even when proper lending ratios and credit factors are not in a normal relationship.

Our bank and, I am sure, many other lending institutions have utilized these programs. However, a problem now becomes apparent. The authorization date for the guaranty expires on May 15, 1980. In essence, any extension of credit made after this date would not be guaranteed. In reality, the borrower has made improvement but still needs the help of the lender to "dig out." Without the FmHA guaranty, the lender would find it difficult to continue with these people. Accordingly, the traffic and the workload at the local county level gets even more burdensome.

To emphasize this point even more, let's assume the following:

One: Customer "A" is refinanced in 1978 under the economic emergency guaranteed loan program.

Two: His line of credit on this program is set at \$150,000.

Three: The purposes of the funds are used to refinance existing debt with our bank and possibly purchase livestock and to pay operating expenses.

Four: In May 1980, customer "A" has a total line at that time with our bank of \$50,000 which at that time would be guaranteed at 90 percent. Let's assume that he does not borrow any more money after the expiration date, and

Five: In June, customer "A" would like to borrow \$50,000 to purchase livestock.

After the following sequence of events have taken place, the local lender could very possibly deny the credit and remove the profit opportunity for the farmer.

This, I believe, is not what this program was set up to do. Therefore, I suggest that the authorization for guaranty be extended to allow for the needed flexibility and enhance the opportunity for both the customer and the lender.

In summary, I offer the following suggestions:

One: Extension of the authorization date on the economic emergency guaranteed loan program.

Two: A review of the local county offices identifying: (a) The county office loan volume, not by dollars, but by number of lending applications; (b) timeliness of loan application from the time it reaches the office at the local level, assuming all the documentation was proper, correct, and completed; (c) utilization of guaranteed programs; and (d) cooperation with the local lenders. This possibly would take a survey of the farmers in the area to determine how cooperative the local county supervisor is being with his trade territory.

Three: More frequent county committee meetings.

This paper is not intended to criticize the Farmers Home Administration's present programs, but to highlight the agency on possible pitfalls in several programs. More importantly, I think the Farmers Home Administration needs to be complimented for its valuable resource that it does provide for agriculture credit. With the use of the Farmers Home Administration, many farmers have been able to "dig out of troublesome times." I present these for your review and highlight you on many areas. The Farmers Home Administration needs recognition. I thank you for your time.

Mr. JONES of Tennessee. Thank you very much, Mr. Unruh. Can you remain with us for a while this afternoon?

Mr. UNRUH. Yes.

Mr. JONES of Tennessee. Our next witness for the afternoon is Mr. Bob Binder, president of the Kansas Association of Conservation Districts. Mr. Binder, I believe, is accompanied by Mr. Krehbiel, Mr. Schemm, Mr. Hayse, and Mr. Martin.

We are delighted that you gentlemen are here and we're glad to hear from you.

STATEMENT OF ROBERT J. BINDER, PRESIDENT, KANSAS ASSOCIATION OF CONSERVATION DISTRICTS, HAYS, KANS.; ACCOMPANIED BY DEAN H. SCHEMM, WALLACE COUNTY; ROBERT MARTIN, RAWLINS COUNTY, AND MARION L. KREHBIEL, RENO COUNTY, KANS.

Mr. BINDER. Thank you, Mr. Chairman. It is a pleasure for us to be here at this hearing. At the outset, I would like to say to Congressman Glickman and Congressman Sebelius, thank you for bringing Chairman Jones to Kansas, and I hope that while he is in Kansas you will afford him a pleasurable stay. We appreciate your coming in our own backyard and giving us an opportunity to testify before you.

I am Bob Binder, president of the Kansas Association of Conservation Districts. We have in Kansas 105 conservation districts and approximately 100,000 direct operators. I am also a farmer in Ellis County, Kans. I have today with me several farmers that I will introduce to you in just a minute.

I don't intend to bore you here today in this testimony with some facts or figures or past accomplishments, because I do believe past accomplishments are important and should be reviewed periodically, however, today, I think we need to concern ourselves with the present and the future.

At this time I would like to have the opportunity to introduce these gentlemen. You will notice on the copy of the testimony that first of all Mr. Nathan Hayse from Kiowa County was to be here. I must apologize for him, and I don't think this is an apology; he does support a heart pacemaker, and they called a little while ago and the doctors advised him not to travel for a few days. And so I think it is very legitimate.

The other gentlemen—some of them have driven as far as 300 miles to be here—we have Dean Schemm, Bob Martin, and Marion Krehbiel, from Reno County, Rawlins County, and Wallace County, respectively.

I have asked them to be here with us today because you gentlemen see us in Washington quite often before various committees there, but today we have an opportunity to hear from the grassroots and these individual farmers have been asked to give us a couple of minutes—I'm sorry I can't give them more time—I'm sure you would like to hear more from them as well.

I have asked each of them to take a couple of minutes, and in their own words—I don't know what they're going to tell you, but I'm anxiously waiting and hopefully it is in support of the testimony that I will present to you a little later. I will now call on Mr. Schemm. If you will say a few words to the committee.

REMARKS OF DEAN H. SCHEMM

Mr. SCHEMM. I'm Dean Schemm, and I'm a farmer from Wallace County. We have been involved with the Great Plains conservation program; we feel that it is a program that is very worth while in our area. It is a long-term basis that gets conservation on the land. We can see that it has protected our soil from water erosion, it's protected from wind erosion, and we feel that through its good practices it will help keep our water clean. It is one way that farmers—it solves the long-term orderly method of getting conservation on the soil.

Mr. BINDER. Mr. Krehbiel.

REMARKS OF MARION L. KREHBIEL

Mr. KREHBIEL. I am Marion Krehbiel; I farm approximately 20 miles southwest of Hutchinson. A number of years back we purchased 400 acres of very eroded soil, and we chose the Great Plains program because we had a number of different treatments to apply to this land. Along with that local conservationist, he helped us choose and coordinate the Great Plains program into our farm and livestock program very neatly. He also was able to distribute the workload, and it was important to finance the load evenly throughout the period that we applied this conservation to this land, which enabled us to meet our ranching expenses, our land payments, and our conservation payments.

Taking present-day figures, if any young farmer or I would buy the same land today and apply the conservation to this same ground without any assistance, I think it would be virtually impossible to get the job done. Taking a little look into the future with present price rises and increased population in the United States and the world, the American farmer is challenged to meet the food needs of the people of the

world, and I see that the American farmer will need to apply conservation to the ground, untreated ground, at a more rapid pace that he has in the past.

I think it can be done. So I urge you to retain the Great Plains program and expand it, expand it greatly with moneys and personnel. Thank you.

Mr. BINDER. Mr. Martin.

STATEMENT OF ROBERT MARTIN, FARMER AND DISTRICT SUPERVISOR, RAWLINS COUNTY, KANS.

Mr. MARTIN. I'm Robert Martin, and I farm in the northeast corner of Rawlins County, and I am also a district supervisor in Rawlins County, so I would like to make a few points on what we run into with conservation programs in our county.

As an example, now, the ACP and the Great Plains are both in great demand out there. The ACP money is all spent for permanent, long-enduring conservation practices, and in our Great Plains contracts this year alone we had 16 contracts which they've written, and if they're funded, they will tie up about one-fifth of the money that will be allocated for new contracts in the State of Kansas. And in washdown, we seem to be getting some feedback that we're not gaining after 40 years of conservation work, we're not gaining.

Now, to make a point of this problem, why in our county the district was first organized in 1947, and about 10 years was wasted just on education. A few years ago we thought we had 75 percent of our cropland treated and all of our rangeland was taken care of; we didn't have any problems. But a recent survey that we did, we figure we only have 56 percent of our cropland treated and the reason for that is in the western part of the country we have a lot of virtually level land, but over the years it has been breaking down and getting finer, and you get a lot of water on a big area of land, it has to go someplace, and we have a lot of erosion.

We have done some studies on our grasslands and only 24 percent is up to its potential. So we've got a long way to go out there.

The one thing we will never be done with is conservation work, because, from time to time, we have to reevaluated our position and take a look at what still needs to be done.

Most of the conservation work on our farm was done in the 1960's, and it was done under Great Plains contract. Dad was one of these old row farmers. Conservation; he liked straight rows and smooth ground, but in 1959 and 1960, we had about 4 foot of snow on frozen ground. Of course, it melted in about 3 days' time and cut ditches, oh, about 6 inches wide and up to 4 feet deep.

Then in June of that year there was 3 nights straight that we got 4-inch floods. Across the road from us there was a field that was newly terraced, and it managed to hold all that water; it soaked in. Lots of the older terraces were damaged, but it was held to a minimum.

On our farm there was holes that you could bury a car in. Dad applied for funding and built terraces. Of course, they were always out of money. He found out about the Great Plains and signed, the work progressed rapidly; when the money and assistance was available, we

went ahead. We don't allot more work than we thought necessary, but looking back, we feel we actually got a good deal out of it.

Volunteer conservation, that's something that has been thrown around, too, and it can work. An example of that is right in my home community on the Ash Creek watershed. Part of our farm is in this. And there's about 9,000 acres there that every time if we got a 2-inch rain in it, it would flood the eastern part and a heavy rain a third of the town was under water, with basements full, and stood the railroad track up like picket fences.

So in 1960, after that snow melted, the rains, the railroad officials and city of Herndon decided something had to be done.

We organized a small informal watershed and the only financial assistance was that the county ASCS committee agreed to give priority to funding applications for that area.

In February 1967, we had a meeting and all of the land that was in that 9,000 acre area was properly treated except about 100 acres and since that time Ash Creek has only flooded once, and that was when there was 9 inches fell in the area.

Of course, that time nobody complained because they said what would it have been like if we hadn't had the land treatment. So really, the Great Plains program, it's the backbone of our conservation program out there right now. The inflation, war—well, our money just don't reach as far. So we're trying to use more Great Plains in order to get more done, and really the natural resources are about all we can get because about all we can really leave the ability to take care of ourselves.

Mr. SEBELIUS. Mr. Chairman, I would like to interject. Mr. Martin is up near Nebraska, Mr. Schemm is over 250 miles, so they're very, very much sold on conservation to come in this far to tell their story.

Mr. BINDER. Thank you, Mr. Martin, and these gentlemen here.

I would like to say to you, I come into Washington quite often and testify before your committee and others, but since you were here today with us, I wanted you to have an opportunity to hear some fellows that don't normally get a chance to get into Washington, and I must say I'm not at all surprised in what they told you, because normally we base our testimony on what the farmers and ranchers in Kansas feel.

The Great Plains conservation program is a unique conservation program in that all work is done on the land based upon a conservation plan for the entire farm. The plan is developed and agreed upon by the landowner, his conservation district and the Federal Government. This plan provides the mechanism for the cooperative act between landowner and USDA. Technical and financial assistance are assured to the farmer by the Federal Government to carry out this plan. It is a joint effort to protect the land from wind and water erosion.

The Great Plains conservation program is also unique in that it is carried out by one agency with full cooperation with districts. Farmers like this aspect because decisions can be made in the field by the technician and farmer without costly delays which might occur when other agencies are involved. It demonstrates ability to assist small low-income farmers, make maximum use of their resources; accelerate land treatment of critical sediment producing and wind erosion areas;

reduce maintenance costs of public utilities; reduce pollution of air and water; it also stimulated local economy and gives communities and landowners pride and confidence in conservation program objectives. It certainly makes rural areas more attractive and better places in which to live and work.

In our opinion, one of the strengths in the Great Plains program is the 5- to 10-year contract with options to modify when needed. This provides the landowner with a tool for long-range planning which is so necessary in agriculture today.

The Great Plains conservation program was established over 20 years ago to supplement existing conservation programs in the Great Plains areas. You are aware that the program authorization only exists through December 1981. Our association encourages you and Congress to reauthorize this program at least 5 to 7 more years. This extension will give the Secretary of Agriculture the time required to review all conservation programs and submit an appraisal and program direction to Congress as is directed by the Soil and Water Resource Conservation Act. This will also provide Congress with enough time to study the recommendations of the Secretary and reauthorize the Great Plains conservation program or establish new programs that might obtain the conservation goals in a more suitable fashion. We encourage you to leave the coverage basically as it is; however, providing the Secretary of Agriculture with the prerogative to increase the areas. We feel this program was established to assist in a specific climatic region and to extend these areas without increased funding would have an erosive effect on this program.

I indicated earlier that I would not use a lot of statistics in this testimony. However, I feel that you should know at least this one fact: We have approximately 80 contracts pending now in our State office with additional contracts being drafted out in the field at this time. What this means is that on October 1 when new appropriations are made available, all of Kansas' allocated appropriations from the Great Plains program could be used up immediately.

This committee also concerns itself with incentive programs. Reauthorization of the Great Plains conservation program from 5 to 7 years as we requested will also give Congress the needed time to study and review the incentive programs that are being thrown into the mix. One of the incentive approaches that seems to be gaining much popularity is the "green ticket" approach. The green ticket idea is designed to separate land users who are doing an adequate job from those who are not.

The Kansas Association of Conservation Districts is fully aware of the testimony that NACD, the National Association of Conservation Districts, provided to your committee on September 11 of this year. We fully support NACD's position. In fact, our own State association is developing the green ticket approach in Kansas, and hopefully within the next year we might be able to carry out a green ticket program in our own State.

Whether we will have any incentives to go with the Green Ticket approach at that time is yet to be seen.

I didn't want to go into any more detail on incentive programs. We simply support NACD. I felt the emphasis was, of course, today on the Great Plains program.

We appreciate the opportunity for allowing us to come in here and testify. I do have several letters of support coming from districts and, incidentally, I am just going to ask for a show of hands in the audience—and I know there's quite a number of conservation district officials here today who have driven—and, incidentally, Mr. Martin, this is a very busy time in Kansas, milo harvest, wheat seeding, the fellows from Kansas know this. If they will hold up their hands, the district officials. Some of these are not even in the Great Plains area, or the area that is covered by this program. They just simply feel it is important enough to the overall conservation goals.

With your permission I will submit these letters from some of the districts that could not attend. In addition to that, Mr. Chairman, the President of the State Association of Colorado asked me to submit for the record the testimony from the State of Colorado because he couldn't be here today, and with your permission, I will do that.

Mr. JONES of Tennessee. Without objection, they will be placed in the record at the end of the hearing or held in the committee files.

Mr. BINDER. Thank you. If there are any questions, we will be happy to answer.

Mr. JONES of Tennessee. Thank you, Mr. Binder. We appreciate you and you gentlemen being here, and we would like you to stay. Again, if you can't you have well made your point. We understand fully well. You're looking at three members of Congress who are in great support of the Great Plains program. I like what you say when you say to increase the funding and to other areas.

Mr. BINDER. Thank you.

Mr. JONES of Tennessee. Our witness is Mr. John Tippie, State Conservationist from the Soil Conservation Service. John, we certainly welcome you.

STATEMENT OF JOHN W. TIPPIE, STATE CONSERVATIONIST, SOIL CONSERVATION SERVICE, U.S. DEPARTMENT OF AGRICULTURE, SALINA, KANS.

Mr. TIPPIE. It's good to be here. Congressman Jones, members of the subcommittee, let me say at the outset it is a privilege to have this opportunity to testify and bring you some information about Kansas some of which Bob Binder and his friends covered I will skip over that very hurriedly, if we come upon those things.

One of the many things that frustrate farmers and ranchers out here on the plains is to have land unable to support a vegetative cover because of drought, and then suddenly, see tons and tons of soil washed away from that same land by a heavy rain. This is one of the biggest problems that we have.

That was one of the experiences of a fellow by the name of Lawrence Svobida, a former Meade County, Kans., farmer who 40 years ago wrote a book entitled "Empire of Dust". He felt that there was no hope. This was what he felt about Kansas—and he left it.

Over the last 40-plus years, the Soil Conservation Service, which I represent, working with local conservation districts, the other USDA agencies, and other groups, has found answers to this and similar kinds of land use and climatic problems. Conservation programs such as the

Great Plains conservation program, however, have been long-range solutions more than they have been quick answers to an immediate situation.

Kansas, today, certainly is not the empire of dust that Mr. Svobida thought it was. It is indeed the breadbasket of the Nation and the world. Kansas ranks first in the Nation in the production of winter wheat, and sorghum silage. It ranges second in total cropland and in grain sorghum production. How many millions of people in the United States and in the world might have starved to death in the last 40 years if Kansas had simply been accepted as an empire of dust and nothing done about it?

Let me review some of the conservation accomplishments, but, more than that, the conservation needs as we see them today in Kansas.

The Soil and Water Resources Conservation Act, commonly referred to as RCA, of 1977 provided for public participation in appraising the Nation's natural resources.

The Soil Conservation Districts in Kansas, cooperating with the Service and other agencies, made an all-out effort to involve the public in identifying conservation concerns. They had 221 public meetings and nearly 5,000 persons participated in this important task across the State. The results of these RCA meetings on the conservation concerns of Kansas soil, water, and related resources have been summarized and are ranked numerically as follows:

The No. 1 major concern after some 45 years of conservation programs, was soil erosion, with 102 of the reports from 105 conservation districts reporting soil conservation as a major concern. Second was food and fiber production; third was water supply; and fourth was water management.

Now, the 1977 Kansas Conservation Resources Inventory, which is a part of the USDA RCA appraisal report on the condition of this Nation's resources, revealed the following:

One: Kansas has 27,310,000 acres of prime farmland, second highest in the Nation, of which 19½ million acres are of this prime farmland is actually in cropland presently. The rest of it is in pastureland and other uses, but it is available for cropland use if needed.

There are 28.8-million acres of cropland in Kansas, of which 13,269,000 acres have not been adequately treated according to the conservation standards which have been established. In other words, 54 percent of our cropland in Kansas adequately treated.

There are nearly 19 million acres of range and pastureland; 10.7 million acres are in need of additional conservation treatment. Fifty-seven percent of our pasture and range has been adequately treated.

The average annual soil loss from sheet and rill erosion from Kansas cropland is nearly four tons per acre. The average annual soil loss from wind erosion on cropland is nearly 3 tons, indicating an average total soil loss annually—an average, mind you—across the State, on cropland of nearly 7 tons per acre per year.

Fourteen percent of the cropland in Kansas suffers an average annual soil loss in excess of 10 tons per acre per years. And an additional 22 percent of the State's cropland has an average annual soil loss of 5 to 10—in other words, 36 percent, over 5 tons, which is beyond that that should be allowed if we hope to maintain production.

We can have an average annual soil loss for the major soils in Kansas between 4 and 5 tons per acre per year and still maintain production. So 36 percent of our soils are eroding at a rate that is greater than that. More than that rate of loss is mining, the soil resource, causing reduced productivity.

To summarize the resources inventory data, I would say that Kansas farmers and ranchers have made excellent progress in conserving the resources over which they have stewardship. However, there still remains a big job yet to be done in Kansas to conserve our soil and water resources to meet the food and fiber needs of this Nation and the world. Forty-six percent of our cropland and 43 percent of our pasture and range still lacks adequate conservation treatment.

Now, just a point or two on the Great Plains conservation program. I think it has played a significant role in the conservation accomplishments in Kansas. The program is offered to farmers and ranchers in the 62 central and western counties where we have the unique and nagging resource problems of the Great Plains—and many of them are still not solved. During this period of inflation when farmers and ranchers are particularly concerned about protecting their soil, there is a heavy demand for assistance under the Great Plains conservation program, as was mentioned awhile ago.

The average obligation per Great Plains contract has increased from \$2,600 in 1968 to the present cost of over \$7,000 per contract this year.

Our fiscal year 1978 Great Plains allocation was nearly 1.8 million. This means that close to 1.6 million is actually put into the conservation work, since the landowners end up paying for about half of the cost. We have \$1.3 million. These funds were all obligated by May of 1978, 4 months before the end of the fiscal year.

In the current fiscal year just ended we had a little over \$1 million for conservation contracts and increased cost share, and again these funds were all obligated before May 1979.

At the present, as Bob mentioned, we have something like 80 to 85 new contracts that would obligate another \$600,000 in our office, with the contracts that are being developed, and those are in our office. I would estimate the dollars needed to fund the contracts will be all used by the end of this month—by the end of October, leaving no new funds for new contracts for the rest of the year. In other words, we anticipate in fiscal year 1980 there will be no funds available for new Great Plains contracts after November 1, 1979.

In my opinion, gentlemen, the concept under which the Great Plains conservation program was conceived is as valid today as the day Congress authorized the program in 1956.

It considers the total conservation needs: it allows one-to-one work with the individual owners; it has flexibility enough that changes can be made and has been an outstanding program.

The Great Plains conservation program, I believe, has met the conservation challenges of the plains on the 6,140 contracts developed with farmers and ranchers on 4.2 million acres since the program was initiated in Kansas.

But, as I said before, there is still a great need for the Great Plains conservation program, since a little more than half the land in the State has been adequately treated.

Thank you for allowing me to make these comments.

Mr. JONES of Tennessee. Thank you very much, Mr. Tippie, for the statement. We do appreciate your interest and your participation.

Our next witness is Mr. Dale Lyon, president of the Kansas Farmers Union. Welcome, Mr. Lyon. We're glad for you to take the time to get here.

**STATEMENT OF DALE LYON, PRESIDENT, KANSAS FARMERS UNION,
McPHERSON, KANS.**

Mr. LYON. Thank you, Mr. Chairman.

Mr. Chairman, Congressman Sebelius, Congressman Glickman, I have, I think it is, a rather brief statement, but if you don't mind, a lot of the things have already been said that need to be said here, but I'm addressing myself hopefully to the Farm Credit Act and soil conservation.

I would like to acquaint you, Mr. Chairman, with the fact that I am not only president of the Farmers Union, but I am also a farmer myself. My family and I own and operate a farm near the big city of Athol in Smith County, Kans., which is kind of a short ride from Keith Sebelius' home. We are, as farmers, participants in the agricultural conservation program, the Great Plains conservation program; we are involved in organizing a rural water district program and of course have been involved in the farm credit programs over the years—as borrowers, naturally.

While my testimony today is intended to reflect the views of the National and Kansas Farmers Union, it also represents a personal view.

I have a copy of a statement here that's been made by Reuben Johnson, director of legislative services, National Farmers Union. He would like to have it entered in the record. He's afraid he won't get to attend. I won't refer to it, but I would like to have it in.

Mr. JONES of Tennessee. Without objection, it will become part of the record.

[Mr. Johnson testified Oct. 4, 1978 in Memphis, Tenn., his statement appears on p. 285.]

Mr. LYON. I want to talk just a minute about interest rates in relation to Federal Land Bank loans. We are concerned about the variable rate. Outside of the costs of fuel and the cost of money, it is possibly the most inflationary single factor in farm operation costs today, land prices. The reason we're concerned is that the land price increases do not increase income from the land, and thus rising interest rates increase costs to which there is no benefit.

Kansas Farmers Union believes that the present authority for variable interest rates which some agencies have Federal Land Bank, for instance, tends to establish an atmosphere where concern about the cost of money to the borrower is lowered. Such an atmosphere could result in the lackadaisical approach to securing funds by the Farm Credit Administration. It also could reduce and, in fact, eliminate the resistance to inflationary pressures in the money market, from very easy—if you're not very strong in discipline—to let things go and, "What the heck," borrow to pay for the land.

Farmers are different than most corporate borrowers in our economy. Farmers can't pass money costs on through higher and higher inflated prices.

I think I could say in behalf of all Kansas farmers that we are kind of tired of being the shock troops out here in the battle against inflation. We'd like to get in on the prices and good things, too.

So the Kansas Farmers Union proposes that the variable rate authority within the Farm Credit Administration be eliminated entirely or at the very least be limited to a 10-percent variation above the rate at the time of the loan for the life of the loan. Such a limit would not curtail farm credit lending to new borrowers and yet it would protect those with longstanding loans from after-the-fact inflation.

We are concerned with the chartering of corporations, the amendment relating to it, to perform service and financial functions.

I have to ask what the purpose of such authority really is. The Kansas Farmers Union has had a longstanding position in opposition to allowing banks and insurance companies to be owned by the same entity. This relates to—well, there are several reasons for this position and chief among them is the potential for coercion. The tremendous power that a lender has over a potential borrower places him at a disadvantage in the first place. When the lenders also market various types of insurance, the potential for abuse of the borrower is very high.

The very act of offering the insurance by the lender is often read as an implied demand that the borrower purchase the product from the lender.

The arguments in favor of it, in our opinion, are not very sound. There are dozens of sources of casualty, liability, credit life, and crop-hail insurance in any given community, and insurance companies are very well regulated by all the States. Bad insurance product really doesn't exist.

There is also the private enterprise argument against competitive marketing by Government or quasi-government agencies of a product that is available and plentiful in competitive supply through private means.

We recommend that the farm credit system be phased out of the insurance marketing business.

We question the move to broaden the authority of PCA's and Federal land bank associations to finance processing and marketing outside of the farmer cooperative framework.

We opposed this move for the reason that noncooperative endeavors create and intensify competition with farmer-owned cooperatives which are in the same or similar business. The banks also have authority to loan to groups of farmers for these purposes.

Federal policy would then, if this occurred, favor integration of farming by individuals and corporations.

Such lending activities would tend to interfere with the primary purpose of the FCA which is a loan funds to producing farmers. It would take capital at a time when capital is hard to come by for farmer financing programs of FCA.

We take exception to the amendment concerning election of directors. We adamantly oppose anything which would reduce the opportunity to choose or to be chosen through the election process. The reduction of the required number of nominees from three to two serves absolutely no interest except the convenience of the bureaucracy.

FUNDING OF FARMERS HOME ADMINISTRATION PROGRAMS

I suppose everyone here has talked about this, but we realize that appropriations are not involved in the Farm Credit Act amendments. However, most of the problem with the usefulness of FCA is the extreme limitations on funds and guarantee authority that exist presently in relation to the actual situation in rural America.

The new beginning farmer program is an example of an outstanding program. It also epitomizes the gross inadequacy of the funding authority in relation to the need.

Without going into detail, we urge you to make a special case of the young and beginning farmer programs when the time comes to pass the appropriation and guarantee authority measures for the next fiscal year. Young people desiring to farm cannot wait out the present grossly inflationary credit policies of the company, nor the inflationary pressures on land prices. The longer you wait, the higher the price the land is going to become.

The young and beginning farmer programs subsidizes the interest cost to beginning farmers.

On conservation programs. I imagine that everything we say will echo about everything said.

The Kansas and National Farmers Union has long been great supporters of all reasonable soil and water conservation programs and we continue to support such programs.

We believe we are in a critical period. Tremendous demand is being made on farmers today to produce for a large segment of the world. Low farm prices is causing soil and water conservation and sound farming practices to be cast aside. Farmers cannot afford to both produce grain and pay the price for sound land and water management at the same with such low grain prices and, after all, for the farmer, survival is first instinct. They are going to keep their own act together and not spend money on long-term programs.

We don't suggest for 1 minute that peripheral programs such as our conservations programs should be made into substitutes for sound Federal price protection programs for the farmers but a much more liberal appropriation of funds for programs which are now in place would greatly increase sound soil and water conservation by farmers.

Of course, as you all know, benefits of sound soil and water conservation programs accrue to posterity, but are not of that great a value to the present farmer.

It is hard to say enough kind things about the Great Plains program. I have been a contractor myself. The contract is completed. The only problem with it was that I needed a new contract because the problems with conservation goes on and on and on.

It is the best program by far, because it takes into consideration the whole farm and it has a conclusion that you won't get your piecemeal approaches to soil and water conservation.

We say in our statement here that we think you ought to have more money. I support—you've heard that many times.

Farmers union urges that the Great Plains conservation program be extended and that it be funded at levels reflecting the current prices relating to the cost of carrying out the practices involved.

With regard to the agricultural conservation program, we believe that the ACP program should be continued—expanded if possible, but certainly maintained.

We think that there might be some areas where you could be critical of some of the practices that have gone on in the past. Not necessarily soil and water conservation programs, but the program itself is a sound program and for those farmers who can't get in such things as the Great Plains or something like that, it is the best program.

We believe that the county ASCS committees should make the actual decision on cost-sharing for their county.

I want to comment on the rural water districts, although it isn't directly related to this.

The administration of the rural water district program is handled by the USDA under the authority contained in the Consolidated Farm and Rural Development Act. It is a very good and very essential program. Along with the companion waste disposal program, the rural water district program are making it possible for more and more people to live in rural communities. The program, also, is instrumental in allowing farmers in historically water short areas to expand their livestock operations thus creating a better economic base in the communities affected.

Last year the entire program was funded at \$900 million in loan authority and \$282.5 million in grant funds. Since there is a tremendous backlog of such projects, we urge Congress to consider loan authority for \$1 billion and a grant authority of \$300 million next fiscal year.

Finally, we realize the urgency of the design to balance the Federal budget, but Congress should be very cautious not to reduce or destroy such basic and necessary efforts as soil and water conservation.

We urge you to finance the entire arena of soil and water conservation plus legitimate rural development programs at such levels as to, at the very least, maintain the present program levels.

I thank you.

Mr. Jones of Tennessee. Thank you very much, Mr. Lyon. We appreciate your comments.

Our next witness is Mr. Herb Edmonds, president, Kansas Association of Farmer Elected Committeemen. Welcome, Mr. Edmonds.

I am going to ask, after Mr. Edmonds finishes, Mr. Glickman to take the chair and preside.

STATEMENT OF HERBERT N. EDMONDS, PRESIDENT, KANSAS ASSOCIATION OF FARMER ELECTED COMMITTEEMEN; SOUTHWEST AREA DIRECTOR FOR NATIONAL ASSOCIATION OF FARMER ELECTED COMMITTEEMEN, McLOUTH, KANS.

Mr. EDMONDS. Thank you, Mr. Jones.

Mr. Chairman and members of the committee, my name is Herbert Edmonds, Route 2, McLouth, Kans. I live on and farm 875 acres in Jefferson County in northeast Kansas. My operation consists of wheat, corn, milo, soybeans, hay, and livestock. I am currently serving my second year as president of the Kansas Association of Farmer Elected Committeemen, and also my second year as the southwest area director for the National Association of Farmer Elected Committee-

men. Our organization is the only one consisting of members who have been elected by their peers in their farming communities, and truly represent the grassroots thinking of the American farmer.

The problem of conservation of natural resources was one recognized by our forefathers many years ago, and society began an active participating role in cooperation with the landowner with the Soil Conservation and Domestic Allotment Act of 1936. That act was sound then, and still remains sound. Some in our society, not directly in contact with the land and its problems, have lost the vision to comprehend the long-range problems created by not being good stewards of the soil. The "dirty thirties," when dust clouds from western Kansas, Oklahoma, et cetera, covered the Sun for hours and days, as well as the floods of the year 1951 in the Missouri River Valley, point up the necessity of a balanced approach to soil and water conservation. Kansas with its diverse weather, is an excellent example of the many problems involved in determining the proper corrective action for a specific local problem.

In southeast Kansas, where the average rainfall for 1973-77 was as high as 49.25 inches, or in northeast Kansas, when it was just a little over 42 inches, water erosion of the soil is obviously one of our main problems. Of course, terraces, ponds, waterways, tile outlets, and other means of slowing the speed of the water are a high priority in our conservation practices. The eastern part of Kansas is only concerned with wind in terms of winter storms.

By comparison, western Kansas, whose rainfall in the same period was as low as 12.70 inches, is concerned with water conservation; hence, any practice designed to increase the penetration of the water into the soil and retard the evaporation by Sun and wind is a high priority in their conservation program. Wind is a menace to the western soil if it is allowed to hit the ground, thus, the obvious benefit of wind breaks and rows of trees planted such that they keep the wind up—not allowing it to hit the ground picking up dirt or dust particles.

The Soil Conservation Act of 1936 provided for the Farmer Elected Committee System, whereby the farmers elect representatives from their communities to help solve the problems found in their locale, with Federal assistance. It also established the Soil Conservation Service, to provide the technical service to design the best possible solution for that problem. This plan worked well for 40 years and more; while other programs, developed under emotional and emergency conditions, have fallen far short of their goals, even though they have been extended beyond their original schedules. The committee system of ASCS has proven its worth, and deserves praise, not criticism—cooperation, and condemnation—and certainly not supplementation with another administrative arm whose sole purpose is to duplicate ASCS responsibilities. Frankly, I'm shocked at the shallowness of thought of such a vocal minority.

I have been concerned in recent months about how we are "hung up" over whether a practice is production or conservation oriented. Being so preoccupied with the conservation oriented terminology has unquestionably hindered our performance out here in the country. There is no doubt in my mind that stopping the movement of soil is a conservation practice, but it is also a production practice, since

the top 8 inches of soil is where the farmer performs his task of producing the food. Anyone acquainted with how wind and water move the soil know that 8 inches of soil can move quite rapidly given the right set of circumstances; hence, a loss of both soil and production capacity. It was a concerned farmer who really was the founder of rural clean water, since it was his soil washing away; and it was his family and his livestock that were affected by both loss of soil and dirty water.

It seems paradoxical that the Federal Government should hold ACP appropriations at a constant level of \$190 million, while at the same time allow the Defense budget to skyrocket to \$110 billion. The cost of conservation has inflated at astronomical rates of 300 to 400 percent; for example, the per hour charge for one bulldozer today is \$48 to \$50 per hour. Multiplied by the machine hours it takes to build a 10,000-yard dam, and you see why fewer erosion control structures are being constructed. One serious problem found in some SCS areas is the length of time involved in getting a dam designed, approved, and out to the contractor; often this is 3 months and more. With this hurdle confronting the farmer, he simply throws up his hands and walks away; and another good cooperator has been turned off by strangling paperwork. This feeling of disgust and frustration has not always been true as revealed by some statistics taken from two reports: The first from a report of Hon. Jamie Whitten before the Committee on Appropriations hearings on H.R. 4387 [Report No. 96-242], page 7. It reads in part from a summary of ACP practices from 1936-78, as follows:

Water Impoundment Reservoirs, 2,417,000 structures; terraces in acres, 35,777,000 acres; strip cropping in acres, 114,902,000 acres.

The second report, of which copies are attached, are from a summary of Kansas participation from 1940-78. Kansas Notice ACP 76-16. In part:

Diversion Terraces, 9,405.18 miles; earthen dams and reservoirs, 102,515 structures; land leveling, 443,433 acres; sod waterways, 233,958 acres; terraces, 272,722 miles.

I want to thank you for this opportunity to appear before your committee; but, more importantly, I want to express my appreciation to you, the committee members, for having made the effort as a committee to ascertain for yourselves the true feelings and problems of the farmer as it relates to stewardship of the soil and the participation of society as represented by his Government. Thank you.

Mr. JONES of Tennessee. Thank you very much, Mr. Edmonds, for a very good statement. I am going to turn the chair over to my good friend, and your Congressman, Dan Glickman.

Mr. GLICKMAN. Thank you, Ed.

Our next witness is Quincy Keller with the Reno County ASC office. It is a pleasure to have you here today.

Mr. KELLER. Thank you. It is a pleasure to be here.

Mr. GLICKMAN. Do you have a written statement?

Mr. KELLER. No; I don't have a written statement. I was under the impression that I was going to have questions asked me and I would answer with some answers, so I will summarize, Honorable Chairman, and Congressman Jones, Congressman Sebelius.

**STATEMENT OF C. QUINCY KELLER, RENO COUNTY ASC,
ARLINGTON, KANS.**

Mr. KELLER. I'm Quincy Keller. This is my home county. I feel like I should welcome you. We feel quite proud of this meeting here in Hutchinson today and to have you gentlemen here to conduct this meeting.

I'm a member of the Reno County ASC Committee, I have been president of the Goose Creek Watershed District for 25 years which bridges the county line of Reno County and Kingman County. I also have farmed in Reno County here for 40 years. I farm 800 acres of wheat and have a livestock program, so I lived and breathed soil conservation for quite a few years.

It is disturbing when you live on a stream and you see it turn cloudy brown after a big rain and the water comes down.

My concern has always been water erosion. But we do have wind erosion, too. But in our area, I presume that we have around 75 percent of our terraces, our land treatment, on the land. Now, that isn't countywide. That is in the watershed district.

So we feel like that it is imperative that this soil conservation work be continued. It is disturbing to see, whenever there are cutbacks made, Reno County, which is one of the larger counties in Kansas, got a budget of \$39,000 for ACP programs last year.

When you try to spread that out over 3,000 farmers, why, it doesn't go very far. Herb mentioned that a dozer was costing \$45 to \$50 an hour. I don't know when he hired that dozer. I know I had one this week and it cost me \$65 an hour.

Mr. EDMONDS. That's inflation.

Mr. KELLER. And this is just a D-7 Cat and dozer. So we can see what's happening. Our dollars aren't going very far at all, and we do need more funding.

I noticed the statement that's been made, and I don't think we can be overly emphatic on it, and if we see a disruption like we have back in 1972 when there was a disruption of the funding of many projects, you lose your initiative. Once you have lost it, it's hard to get it back.

I know I made several trips into Topeka trying to get some detention structures to go in just ahead of that and completely lost them. We never got them going again.

I don't know whether we want funds set aside somewhere to keep from having these disruptions or what we do need, but we would need something so that we don't have any disruption of the programs.

I know the Great Plains and your LTA's and so forth takes care of some of that, but these are fields that we certainly need to keep our eye on.

We look at just the original investment, as a rule, when we talk about helping the farmer get the terraces and structures and what have you on his land. We forget the investment that that farmer or operator—I should say operator, because there's many tenants out there doing just as good a job as what owners are in protecting that land, so he's got to get out there and it takes around 30 percent more time on terraced land than it does on flat land farming. He's got to go in there and maintain those terraces over the years and look after

them, so he does have a responsibility. It doesn't end when that original investment is made on that land.

So we are, therefore, asking for increased technical and financial aid instead of cutting the program down as we have seen it done.

Now, in Reno County, and I think this is true in the State of Kansas, we see a close cooperation with the ASC office, the ACP program, your Forestry Service, your Fish and Wildlife and others in developing programs, and I think it's quite important that we cooperate and then we like the cooperation that the ASC can do a good job of administering those programs.

So I think this will conclude what I have to say.

I appreciate the opportunity of appearing here on behalf of our Reno County ASC committee today and thank you for coming.

MR. GLICKMAN. Thank you, Mr. Keller.

I believe that you have submitted a letter. Is this from you?

MR. KELLER. No. I brought several letters with me.

MR. GLICKMAN. All right. Without objection, these will be placed in the record at the end of the hearing.

Next witness is Mr. Charles Lewis. Welcome to the hearing. You might let us know where you are from when you introduce yourself. We don't have that in the schedule.

STATEMENT OF CHARLES F. LEWIS, YATES CENTER, KANSAS

MR. LEWIS. I'm Charles Lewis from Yates Center, Woodson County, Kans., and I would like to thank Congressman Jones, Mr. Glickman and Mr. Sebelius and any of the rest of the committee that had a part in my being able to be here.

In 1948 I started farming on 160 acres—I still live on the same quarter; however, since that time I—my son and I—went into partnership in 1972, and we now own 780 acres and run an additional 455 acres. We run approximately 50 cows and feed out approximately 1,200 hogs a year plus cash grain.

I'm not here to tell you of my defeats or my accomplishments, but I'm here to tell you what I think this country needs on conservation practices.

In the 1930's there was hardly any practice being done either private or Government, and what ponds we had were just mudholes, farmers farmed up and down the slopes, tried to prevent gullies, but the sheet erosion was worse. The coal was mined from strip pits with no thought of tomorrow, and residue from oil wells ran out on the land and down the streams.

Since that time, we have come a long way in conservation of our land resources, but we have still got a long way to go.

In 1948 I built my first terraces with a whirlwind plow, and they are still working today. And the programs that we have in our county with a little maintenance will last indefinitely. Sometimes we forget that we put an age or a time limit on the practice, but if it is maintained, it will last indefinitely.

At present I have all the needed conservation on my land, so you see I'm a firm believer in soil and water conservation. I stand before

you gentlemen today and I am thinking of the younger farmers, the ones that can't afford to pay the whole money. What will they do? And the ones that might do some of the practice but without Government money certainly will not bring them up to the specifications that it takes to do the job right. I'm speaking of the water and pollution down our streams.

Gentlemen, can we as a nation afford to let our soils go without the needed conservation practices? I think not.

We have no more land to move to today, or resettle. No new horizons or land to break up. We either protect and conserve our God-given heritage, or the future of our Nation—and yes the world—will pay the dire consequences.

Some years back the Government came out with a figure of \$190 million for conservation work. Where they got that figure I don't know. But bless their hearts, that's better than zero.

And if we remember back years ago when this first came out, it was something like half a million dollars that was appropriated to start with, and look what they do with that much money today, if they could buy that much conservation today for what they did there in the 1930's.

The present ACP program in my estimation would be sufficient for the Nation's soil and water conservation problem if there was more adequate funding. And this program shouldn't be delayed forever. Twenty years ago I used to drive over the county and see field after field of sweet clover, and I'm from eastern Kansas, as some of you maybe don't know what part Woodson County is from, but I am from eastern Kansas. I used to drive around and see sweet clover, field after field of it, in the summertime. Now, us older men know the benefits of sweet clover for the soil, but the Government frowns on money for lime, and without the help of the Government, these younger farmers can't afford to buy the lime at \$7 a ton.

I would like to give you what I call tilt of the soil. Sweet clover loosens the soil, it adds a lot of humus to the soil, it acts as a sponge to hold water. But probably one of the greater benefits of it is the fact that it will keep the soil from washing and from blowing. And in eastern Kansas we have some blowing problems, but we have a lot of water problems. Either too much or not enough.

We're speaking today of our Nation's future lifeblood in this conservation, and the old saying that the way agriculture goes so goes the Nation I believe still applies.

From years ago, back in the Bible times, Rome said they would produce a strong military, but they fell and they had a decaying agriculture. And these younger farmers to me is what hurts me, and I looked over this crowd today, and you gentlemen are facing this way, just look at the average age, and why? Maybe these younger farmers don't realize what they're going up against. But it just hurts me to see a field, a farm, go down the drain through needed conservation practices. Less practices, less soil, less crops, less money.

Some years ago we had a visit with the State committee, a State ASC committee, about lime, and to me lime is one of our greatest assets that we could have in eastern Kansas. With lime you can—I

mean you increase your production, it is not a fertilizer, but it deacidizes the soil, neutralizes easily. We all know that 200 bushel corn fodder on the land, if it is turned back to the soil, is way more than twice the humus of a hundred bushel, and the same way with the 50 bushel, more increase your production of crops and put the residue back on the soil, the more you hold it, the more you keep it from blowing. And that's why I think that these—you allowing me to come up here and tell what little I know, maybe I'm a little bit off the deep end, but I sure hate to see these younger farmers facing the future unless we leave them something to be used.

I didn't come up here to tell you the practices that I thought we ought to have in eastern Kansas. I realize where the chairman is from, same way with the other two gentlemen on the panel. Kansas has a lot of different things in certain areas. But I think they should be left up to the county committees and the State committee, and not from a non-farm-background bureaucrat in Washington to decide what we do.

Gentlemen, I thank you for your time and patience, and generosity, in allowing me to come before you with my thoughts. I trust you will take the material that is presented your committee through these meetings over the Nation and with wisdom from above you will do the right thing for the Nation. Thank you.

Mr. GLICKMAN. Thank you, Mr. Lewis. Appreciate your comments.

Our next witness is Mr. Dwight Day, from the Oklahoma Association of Farmer Elected Committeemen. It is a pleasure to have our neighbor from the South here.

**STATEMENT OF DWIGHT DAY, NOBLE COUNTY ASC COMMITTEE,
OKLAHOMA ASSOCIATION OF FARMER ELECTED COMMITTEEMEN,
PERRY, OKLA.**

Mr. DAY. Mr. Chairman, I am Dwight Day, member of the Nobel County ASC Committee, in Perry, Okla. The county which I serve consists of approximately 483,000 acres of land which approximately 180,000 acres are cultivated and devoted to crops. The majority of the land is devoted to small grains with about 10,000 acres in alfalfa.

The major conservation problem in the county is soil erosion from uncontrolled water. This major problem not only results in loss of soil and water, but also affects the quality of water in the county. The county development under the leadership of the county committee has made a concerted effort to solve this soil loss and water quality problem.

During the last 7 years (1973-79) the committee has approved cost-sharing for \$439,463, for an average of \$62,780 per year. Eight percent of this 7-year expenditure has been allocated to permanent vegetative cover, 28 percent to terracing crop land, 33 percent to ponds and 30 percent to waterways. I wish to point out that the 7 years' expenditure of the county ACP funds 99 percent, I repeat 99 percent, has been spent on practices to solve the basic conservation problem of the county. The program has been criticized by a recent audit by GAO for being used to fund production oriented practices. I want to emphasize again that 99 percent of 7 years funding in Noble County has been

allocated to permanent type practices to solve the major conservation problems in the county. Soil erosion from uncontrolled water and water quality. Even with concentrating the county's limited ACP fund to these permanent type practices, a survey by the county office and the Soil Conservation Service shows that approximately one-third of the crop land in the county has had no conservation treatment. The primary reason the work has not been completed is the shortage of funds and the high cost of carrying out conservation practices. For instance, in 1973, the cost of constructing terraces was \$8 per 100 linear feet. Today the cost is \$18 per 100 linear feet. This is a 225-percent increase in the last 7 years. During this same period of time, the cost of constructing ponds has increased 157 percent and establishing permanent vegetative cover the increase is 175 percent. However, during this same period of time the national allocation has been reduced from \$225.5 million to \$190 million.

Although national figures indicates net farm income is up in 1979, this is not the case in small grain production. Even though the price of wheat has improved about \$1 per bushel around 33 percent, the price of fuel has more than doubled and fertilizer has increased about 36 percent. Interest cost has increased 44 percent in the last year. These increases in operating cost has decreased the amount of conservation work producers can perform from their own resources.

In 1979 this county committee had to take action to buy the best conservation possible with the funds available. We, the committee, did not approve any practices except waterways and terraces after late spring when it became evident that funds would not be adequate. We have no exact method to determine the funds needed, but estimate that the 1979 allocation was no more than 50 percent adequate. The 1977 program is a good indication of the funds needed to meet conservation needs in this county.

Attached to this testimony is a yearly summary for each of the 7 years used in this testimony. Mr. Chairman, I thank you and your committee for this opportunity to testify in support of the Agricultural Conservation Service.

[The attachments referred to above are held in the subcommittee file.]

Mr. JONES of Tennessee. Thank you very much, Mr. Day. Very good statement.

Mr. GLICKMAN. Mr. Chairman, Mr. Day mentioned the fact that the allocation for ACP was reduced to \$190 million, but our House Agriculture Committee approved \$250 million and it was subsequently reduced by other forces.

Mr. JONES of Tennessee. We were actually fortunate enough to get it through the full committee without a problem, but the budget committee cut us back.

I'm going to call on Mr. L. D. Freeman, the next witness, and then turn the chair over to Mr. Sebelius before he has to leave to go back to his district.

Let me say here that we're glad that you folks from out of State are here, the one or two that have come a long distance and alluded to the fact that some farmers have driven as far as 300 miles. We appreciate that more than you know.

**STATEMENT OF L. D. FREEMAN, SEMINOLE COUNTY ASC
COMMITTEE, HOLDENVILLE, OKLA.**

Mr. FREEMAN. Mr. Chairman, my name is L. D. Freeman, a farmer from Seminole County, Okla. I am also a member of the Seminole County ASC Committee. I am privileged to be given the opportunity to testify as an Oklahoma farmer before this distinguished group supporting ACP and ASCS.

I have periodically heard rumors, read statements of the news media, and those of some lawmakers, to the effect that ASCS, through the agricultural conservation program—ACP—is not doing the conservation job it was intended and therefore should be abolished. Gentlemen, that would be an unwise move, in my opinion.

First, ASCS personnel throughout our great Nation have proven time after time their expertise in carrying out any and all programs enacted by Congress over long-term periods or on short notice, many times with a minimum of personnel, for agricultural and nonrelated activities. ASCS has the knowledge. ASCS has the necessary farm records, and ASCS has the stamina to never say die, and to give service with accuracy and expediency. In most areas, ASCS is the "government," looked on as the authority, with outstanding credibility not only with farmers, but communities as a whole. Dedicated personnel have devoted their entire careers to perfecting their knowledge of the programs, applying them to their areas, assisted by State and county ASC committee policies, within regulations as enacted by law. ASCS means something to America. No other agency has the broad background, statistical data, or trained personnel to accomplish what ASCS can do; and it is far more qualified to administer ACP than any other agency established or to be established.

ACP is vital to our Nation. We feed our people and provide agricultural commodities for other nations, and funding for ACP should be increased from \$190 million, rather than whittled down to fund some other program such as the rural clean water program, which should be separate and apart and not reduce our already inadequate ACP funds.

In Seminole County, the 1979 ACP allocation is \$72,362. To date, our cost-share funds are exhausted and we have on file in the county ASCS office, requests totaling approximately \$45,000. These are for approximately 30 ponds for erosion and water conservation, as well as to provide livestock water, and about 30 requests to establish bermuda and lovegrass on farmland subject to erosion. We have been out of ACP cost-share funds for about 6 months and many farmers didn't file a request because of exhausted funds, so really the funds needed cannot be accurately estimated based on requests, but the need is there to be readily seen when traveling over the county. Our county has used their funds for practices of a permanent nature such as gullies, diversion terraces, ponds, and grass establishment. You can readily see, with our State allocation of \$5,773,985 for ACP, divided among 77 counties, how far short we are of need, when comparing with Seminole County which is by no means the largest in the State.

You might ask me, why help a farmer carry out a conservation practice on his farm. He gets all the benefits of taxpayer money. First, it isn't his land; he is only a keeper. The land must be kept productive for generations to come. The funds allocated are an investment in our Nation's future. We are so "conservation" minded these days, spending billions on energy programs, so why not be consistent. Without past funding for ACP, our Nation would not be as well fed, clothed, housed, or have the water supply we now enjoy. The farmer is a workingman, like everybody else; and profits from the farm are never a surety as are salaries. In most instances throughout our Nation, the farmer does not have the ready capital to carry out much-needed conservation measures. In our county, when SCP funds are authorized, the practice carried out with this assistance usually not only corrects a conservation problem on his farm, but alleviates one or more problems on nearby land; thus, someone else benefits, just as all of us benefit when our natural resources are conserved.

I feel that Oklahoma farmers and ranchers cannot and will not carry out needed conservation measures without a fully funded ACP. The public will benefit from conservation obtained through ACP. These benefits are clean water, longer life municipal water supplies, reduced river dredging, and assures a productive land for future generations.

Gentlemen, I thank you for the courtesy you have extended to me, and urge you to continue your support of ACP and ASCS.

Thank you.

Mr. SEBELIUS. Thank you, Mr. Freeman.

Our next witness is Wallace Murphy from Alton.

I've got to digress and tell you a little bit about Wally. I get a lot of phone calls from a lot of people, various times of the day and night, but when I'm in Washington, D.C., it's around 11 o'clock at night, which is 10 o'clock in Alton up in Osborne County, and when the phone rings I know it's Wallace Murphy.

He dedicated himself to conservation, and we're glad to hear from him at this time.

STATEMENT OF WALLACE D. MURPHY, CHAIRMAN, OSBORNE COUNTY CONSERVATION DISTRICT, OSBORNE, KANS.

Mr. MURPHY. I would like to thank you and the committee for taking this opportunity. We have a lot of different areas of our State concerned with conservation—the GP, ACP, or what-have-you—and I know we have probably been to the same school out there trying to make a living at that land, but we didn't all sit at the same desk.

I think this means something to the committee.

We are living in a time when almost everyone is concerned with conservation of our resources.

In the ranching and farming area of the Great Plains, our main concern is conserving range and crop land. There have been several Federal assistance programs over the past 40 years. Today, we have the ACP, GP, R.C.&D., and watershed programs to aid conservation.

In our area we have ACP and GP. Both of the programs have merit. The Great Plains program was started in our area in the early sixties.

With the Great Plains program, conservation practices were greatly increased in our area. With a GP plan complete planning, funding and scheduling of conservation practices are implemented, with most continuing for 5 to 10 years. There is more opportunity for operators to work closely with SCS personnel. We have found that operators who have had or are still completing a Great Plains contract are more informed about overall conservation on range and crop land, and the maintenance of conservation practices, than an individual who has an occasional conservation practice under the ACP program.

The Great Plains program is an excellent program. With adequate SCS personnel and sufficient funding, this program will aid in the preservation of our natural resources.

Committee members, we, as representatives of the Osborne County Conservation District, are concerned with the conservation of range and crop land of Osborne County, the State of Kansas, and the Great Plains area of the United States, and encourage your support in the continuation of the Great Plains program. Thank you.

Mr. SEBELIUS. Thank you, Wally.

George Dugan from Alton is the next witness. He is not present at the moment.

Our next witness is Dean Myers, Kansas Land Improvement Contractors Association.

STATEMENT OF DEAN F. MYERS, PAST PRESIDENT, KANSAS LAND IMPROVEMENT CONTRACTORS ASSOCIATION, HAVENSVILLE, KANS.

Mr. MYERS. I am Dean Myers, past president, Kansas Chapter Land Improvement Contractors of America.

To acquaint you a little bit with us, we are 28 years old, and we have on an organized basis been related with ACP for a number of years. We are pleased with this opportunity to appear before you today and discuss the ACP program.

I am speaking for approximately 500 land improvement contractors in our State and all the farmers we work for. Many of us have over 30 years of experience in the land improvement business and being close to the ACP.

Like many small farms in Kansas, particular northeast, my home, our 280-acre farm is subsidized by other means of income, the land improvement contracting business.

Nearly half of the farms in our area are owned and operated by people who have farming in their blood, but have to hold down another job to survive.

In these areas of our country, ACP is doing a good job and definitely needs to continue. Much of the work would not be done without ACP.

More money could be used in these areas than is needed in more prosperous areas when land owners could be encouraged to do more on their own. This determination can be made and also the practices available, by the county committee.

A trust fund would be a good way to gain more funds for conservation work, provided the money would be spent directly on the land and not be spent to operate another agency.

To generalize on ACP, the money spent for ACP practices is one of the best investments our tax dollars can make. Special projects have greatly boosted progress in the slow areas, such as the Soldier Creek project in northeast Kansas. These projects are a big help toward getting our total conservation job done.

New specifications plus inflationary costs have reduced the amount of work being done for the money available.

In some areas, work has been hampered by lack of contractors. This is due to several things. I list them as:

(a) High costs of being in business has forced some out. Some have chosen to do something else.

(b) Lack of funds has forced contractors into other phases of contracting—road work, pipeline, et cetera.

(c) Rigid specs and governmental redtape has discouraged others to not do any ACP work.

It is the contention of our association that any delay or reduction of funds for ACP would greatly slow down soil and water conservation in our country.

Again, I would like to thank Chairman Jones, and members of the subcommittee for this opportunity to testify.

Mr. SEBELIUS. Thank you, Mr. Myers. I'm going to turn the matter over now to Mr. Glickman. I guess we've only got one more witness listed.

I want to thank everybody for coming down, spending your time, giving this committee the benefit of your testimony here.

As I leave, Ed, I want to thank you for coming to Kansas. Dan and I are glad to have you here, because as far as I'm concerned you are Mr. Agriculture on our committee now that Bob Poage is gone, and I'm relying on you to a great extent.

Mr. JONES of Tennessee. Keith, I enjoy working with you and always have. I have never had a better day than today. I appreciate the fact that you made the sacrifice to come over here. I know it was some inconvenience to you to do that.

Dan, why don't you wrap it up.

Mr. GLICKMAN. I believe we have a John Madden from Bristol, Okla., and then after that, with the discretion of the chairman, I would like to hear from my good friend John Adrian who is chairman of the State ASC committee as well as a farmer in Harvey County, Kans.

Mr. Madden, it is a pleasure to have you here today.

STATEMENT OF JOHN P. MADDEN, BRISTOL, OKLA.

Mr. MADDEN. Gentlemen, I don't have it written down, a written schedule here, and what I do have to discuss and the notes that I did make are just about in their entirety covered by someone else ahead of me. So the problems involved and the want of funds to keep the programs going in soil conservation and all have been mentioned before by just about everybody that has come up here and had a seat.

So the things that I would like to add then, I'm going to pick the topics out, is going to be to make this program and things more attractive so that it will be worthwhile.

As I discussed some of the other things I would like to say from the standpoint I represent contractors from the State of Oklahoma, and

down in our area—Arkansas, in other words, since I work around several different States—cost sharing is a necessary situation with the high rise of everything, our young people going out, young married couples, young families in the rural areas aren't going to be able to do and enjoy and build their little farms and little homesteads up without keeping this program going.

As an incentive—this is one of the things that I would like to insert—I as a contractor or you or anybody, if you've got the money or credit or whatever you want to do today, during the year they have a credit investment program, Internal Revenue Service has brought into effect, and we feel that if our committee can help out in some way promote a tax deductible credit investment over to—into this ASC work and soil conservation end of this, we believe that there would be a lot more participation.

We're hunting for ideas now to get people to, instead of backing off, to come into it.

And if the farmer now can go ahead and spend some extra dollars that he wouldn't normally do, if he can get a 10 or 25 percent direct tax write-off on his personal income tax, I think there's going to be people taking a good look at it.

Another thing I would like to say is that I believe and I think that our soil conservation people, everybody will take—that they realize that in the different localities of the country that the farm committees, the county committees, and all know a little bit more about their problems that they have in their area and not the needs that they have; in other words, in one area you need to clear timber and plant grass, in another area you need to fill in gullies, another area different things.

I would like to see a little less Government intervention you might say, in these programs and let the local farmers, the committees and their contractors get together with the farmers and then let the Government people see that the project is done properly.

This eliminates various problems and you might hear people saying, well, they're running our business too much for us.

We have had some complaints—I have here and I feel that I'm able to present them—whereby the boys that work for the Government in ASC, they work for them, they can't say some things direct, they're employed by them and all, me being a neutralist, you might say, I believe I can mention them. We have started jobs I understand down in our country, there's been commitments been made, projects started, the money was there and then either upon the top end of the ladder either out of Washington or down in the State, I don't think it's the State, we've got a fine bunch of people to work with, we've had a bunch of these stopped.

Mr. GLICKMAN. If I may stop you for a minute, you say the jobs are stopped. Are they stopped in the middle of the job?

Mr. MADDEN. There's been some of them cleaned, stripped, staked and different situations of this matter and then they put a hold up on them.

Now, we don't know whether they're keeping up the bookwork c'ose enough—this is a real thing hard to do, you allocate so much money and somebody comes in and signs up a few times, he doesn't go ahead and do his practice, somebody else—you've got a waiting list of people,

and all of a sudden at the end of this time you've got allotted to these jobs, all of a sudden some of these people didn't do their things.

Now, they try to get somebody else going right quick and yet they're running into the situation where they need time extensions and to go ahead and do projects of that type.

Mr. JONES of Tennessee. Let me ask a question, Mr. Madden. Are you talking about money that has been allocated through ACP?

Mr. MADDEN. Yes, sir. Strictly—

Mr. JONES of Tennessee. Strictly ACP?

Mr. MADDEN. Yes. This type thing.

Mr. JONES of Tennessee. Emergency conservation measures, that kind of thing?

Mr. MADDEN. Yes.

Mr. JONES of Tennessee. What I don't understand is why they would allow you to start the program, the project, and then stop it. That's what they've done?

Mr. MADDEN. This is done.

Mr. JONES of Tennessee. I don't know, maybe somebody here can answer that question. Looks to me like that's not Washington, that's somewhere from the State down. Somebody is not doing a bookkeeping job. This is a new problem to me. I hadn't heard about this. And it is ACP funding?

Mr. MADDEN. Yes.

Mr. JONES of Tennessee. Terraces?

Mr. MADDEN. Yes. Ponds. Different things of this nature. Seems as though the projects get started or you take a rainy season or something when you're held up, and all of a sudden—let's say you're going to end your fiscal year in July; well, you've got a rainy season through June, you're trying to cram all this work into a particular time to get it finished.

I know I've had them call me right in the last 27th day of December or something to try to get projects that, "We've got the money to do the job with, we want to spend it, needs to be gotten out on the job and out on the farm." And I think it is more of a local problem than it is down there, I don't think any of the State people is aware of it.

Mr. JONES of Tennessee. I thought we could carry that money forward. I didn't think because the fiscal year ended that the money had to revert back. I thought that money could be transferred by permission, by request, into the next fiscal year. Does anybody know?

Mr. ADRIAN. The law was changed in 1977 to permit that. It had been a problem.

Mr. JONES of Tennessee. That's what I thought. John, do you know anything about that?

Mr. GLICKMAN. Why don't you state your name?

REMARKS OF AL SMODER, CONSERVATION PROGRAM SPECIALIST, ASC, MANHATTAN, KANS.

Mr. SMODER. I'm Al Smoder, conservation program specialist with ASC out of Manhattan, Kans.

I think what the gentleman is alluding to is the obligation of funds for a specific project or practice, as you will.

The procedure, as it applies now, does apply, starting in 1971, we have no yearend funding; what we mean by that is funds are continuing to be used until they are closed or the practice might be canceled, if that might be the case. So once a practice is approved by the county ASC committee, those funds are obligated for that participant, that farmer, and they do remain outstanding until he finally completes that practice.

So I don't quite understand the problem, because under these situations once those funds are obligated they are obligated for that individual and they remain outstanding to that individual until he completes that practice.

Now, on a fiscal year basis, if funds are not utilized during that fiscal year the county office, county ASC office, can carry those funds forward to the next fiscal year to be utilized in the same manner.

Therefore this must be a local problem. Maybe the way it's being handled might not be quite the way it should be, but I hate to speak for Oklahoma, but I don't quite see how we could have a problem in that area.

We do have one area that might be the situation, and that is tied in with what we call our maximum payment limitation, where a producer can receive up to \$3,500 per fiscal year per person.

All right. If the practice was completed by September 30, 1979, the \$3,500 limitation would apply to that person for the 1979 fiscal year; if it was started in 1979, in the 1979 fiscal year, and carried over and completed in the 1980 fiscal year that money would be—the \$3,500 limitation—would apply to the 1980 fiscal year.

So you may have something in that area whereas a practice was started in fiscal year 1979, carried forward into 1980 fiscal year and this might be creating an internal problem on the maximum payment limitation. I don't know.

But this is the type of procedure that we work with on the maximum payment limitation to see that the law is abided by and that the \$3,500 is not exceeded for a particular fiscal year.

But as far as obligation of funds, once those funds are obligated to that producer, once he receives his approval from the county ASC committee, those funds remain outstanding to him until such time as he completes the practice.

Mr. GLICKMAN. Thank you.

Mr. JONES of Tennessee. Mr. Madden, whose congressional district are you in?

Mr. MADDEN. Jones, I believe.

Mr. GLICKMAN. Are you up in the Tulsa area?

Mr. MADDEN. Yes.

Mr. JONES of Tennessee. I wish we could find out if that is a local situation, State situation. It is not national.

Mr. MADDEN. No, I don't think so.

Mr. JONES of Tennessee. But I can see how a contractor could be put in a bind with something of that sort.

Mr. MADDEN. Right. And if the farmer is coming in and he's making plans to get this assistance and then it's changed, he's pretty down on the program.

Mr. JONES of Tennessee. That's a situation that can be corrected, I believe.

Mr. MADDEN. If I might, I would like to ask an individual here a question and let him say a little bit of something along that line.

Because I'm not real active in soil conservation work, although I have been for 25 years. I ventured into pipeline work and I'm the president of our Oklahoma Conservation Contractors, so as a result of that I get the telephone calls and the odds and ends from different ones and then from the complaints between the contractors and the farmers and up to our local offices, in different counties, not just mine, but all over the State.

We have another contractor with us here who came up also from Oklahoma, and he and I were discussing a situation whereby they had started a project and then it was shut down, and it was stripped off, the time was spent, taken the machine out there—lot of our locations are where you can't go out there until the engineer stakes it, or you tear his work out, and can't do it.

Lot of our work has to be done in advance of the engineering. We have a Mr. Kimberling here, and rather than spend our time discussing it, his name is just below mine, he's been an active contractor for years, and who is still involved in it somewhat.

And, Bert, I believe you mentioned last night that they had a job started over in your area somewhere.

Mr. GLICKMAN. Why don't you stand up. Your name please?

Mr. KIMBERLING. Bert Kimberling, Winston, Okla. That was 2 years ago when this particular incident happened that he was referring to.

Mr. MADDEN. Well, I went down, the situation from some of the boys who represent our organization back in Washington we talked to them, and conservation contractors which I think we're covering around 38 States now we're interested in, which is all pertaining to this type of a program. So we do have people back there which I think you're acquainted with also in Washington that have made contacts with you people.

These are the things that we're trying to promote somewhat and things that are being worked on both ends and we appreciate the opportunity of getting to give you our views and opinions.

And one of the main things I would like to say is I don't think other than old age pension and social security there is nothing any more important to this country and keeping the farm ground taken care of and to grow the groceries.

I thank you for your time.

Mr. GLICKMAN. Thank you very much. I appreciate it. Is anybody from the Kansas Farm Bureau here? I don't think they were able to come.

Before we bring the witnesses back I would like to ask John Adrian if he would, as chairman of the State ASC and as a farmer, if he would like to make a few comments.

STATEMENT OF JOHN ADRIAN, KANSAS STATE ASC COMMITTEE, MOUNDRIDGE, KANS.

Mr. ADRIAN. Thank you.

Thank you, Congressmen Ed Jones and Dan Glickman.

I'm sorry that Keith Sebelius had to leave, because I did want to say that I'm sure most people here would agree with me when I do

say that this is indeed a blue panel, blue ribbon panel. We all know that all three of you are friends of the farmer, and that each in his own way is doing a terrific job for agriculture.

But right now more specifically I would like to talk about the importance of soil and water conservation. You know, you don't have to be much of a student of early history to realize that great nations have fallen by the wayside basically because they did not care for their soil. They let it erode, blow away, wash away, and the nation fell as a consequence.

If you go through early history you will discover that there were more than one or two or three nations that had this experience.

Having said that I would like to say that soil and water conservation in my estimation and many other people's thinking is your business here today, is one of the most important facets of our social and economic life.

You know soil, they tell me and I learned this when I was in school and needless to say that was many years ago, that it takes 100 years to make 1 inch of soil. I don't know whether that is still good. They always find quicker ways to do things. But at any rate we can't afford the loss of our soil and our water.

In Kansas, and I suppose this goes for many other States, we have tremendously good soil. You have heard we have produced a lot of food and fiber, food not only for our people but other peoples of the world, and what that does to our balance of payments and other things I don't need to tell you, you all know that. But I do want to stress this point, that while soil conservation, soil and water conservation, is vitally important to the farmer, it is equally important to the city people. They have just as big a stake in this thing as we do. It is their country, it is their nation, and we produce food for them as well as for ourselves, and by conserving our water and our soil we are going to assure us and assure them and other nations that we will have ample supplies of food at all times.

I'm a farmer and I live not far from Hutchinson. I farm in my home county of Harvey County. I live west of the little town of Hesston—I should say the big little town, because people there believe it is, with its factories, Hesston Corp. and so on. But I also farm in Reno County, and in that particular area we have an aquifer known and the equus beds, water beds, that all the towns in and near around it are getting their water supply from. It is a kind of water that is recharged only by rainfall. As I was starting to say, the people in this area, this rather sizable area which encompasses the towns of McPherson, Moundridge, Buhler, Halstead, Burrton, including Wichita to some extent, are dependent upon water from this supply that is replenished only by rainfall.

And if we let this rainfall go down the streams and valleys and find its way to the gulf, who are the owners of many, many thousands if not millions of tons of our soil that have gone by that wayside, we're not replenishing the watershed and providing water for other people.

That is just a bit of example that I like to put forth for you.

Now, another thing in a way in which city people can benefit. On my own farms, farms that I own and farms I have completed during

the years the terraces, waterways, as were laid out by the soil conservation service, approved by the county committees, and cost shared by ACP.

Now, some people wonder, and I have heard this mentioned from time to time, why can't the farmers do this on their own? Well, I might interject here and say that we are in some agreement, and I don't mean to dispute my friend Charlie Wilson's viewpoint, but we are in some agreement that long-term soil conservation should be the issue and is, and we don't find ourselves in disagreement very much with how ACP funds were laid out in 1974, as recently, and I also agree with Charles' opinion that the program method that he suggested are very beneficial to the soil. But, you know, when you ask the taxpayers, all of us together, to pay for these services they should be of long term, they should be enduring practices and by that very reason I think the farmer should not be asked to bear the cost alone.

In some instances of course the farmer would, but in many he would not. He could not afford to do it. And I think the future of our Nation, the future of future generations is certainly dependent upon our very soil, and as I say to groups and audiences that I speak to on occasion, if it wasn't for the farmer and for the land and for the water on it, they wouldn't be here. I say that directly to them during the evening. They finally get the message.

Soil is basic, agriculture is still our most basic industry and touches everybody, and if we let this become deficient in anyway all of the people of our fine land will suffer.

And, as Herb Edmonds said, touched upon, I too, find it a bit ironic that in something so important as soil and water conservation we speak of only a hundred ninety million when the military speaks in terms of billions, and I'm not a pacifist who is suggesting, for instance, that we should do away with the military. But I do think we ought to have some priorities and be realistic in our appraisal of the needs of our great country.

I think I have probably gone long enough, but I do want to say this again, that I feel very sincere about this. I think it is one of the most important things that we do, is to conserve our soil and water from wind and water erosion. You conserve your water, you slow up your runoff with terraces and you will have growth, you will have vegetation that will prevent wind erosion. The two work hand in hand, and you can't beat that.

Gentlemen, we thank you. I thank you personally for appearing here. I think it is a real honor and real privilege to have you here, and I want to thank the many people that appeared on the program. There were some very good statistics and very good speeches. Thank you.

Mr. GLICKMAN. Thank you, John. That was, as per usual, an extraordinary statement and well thought-out statement. I think there's a couple things to add on what you're saying. These programs, even though they are Federal dollars coming in, are still a symbol of local control and that is what makes agriculture programs so beautiful and so different from most of the other Federal programs that we have. There is that strong element of local control.

And I might say also that our committee supports, as I told you, full funding for both the Great Plains program and expansion of that pro-

gram as well as funding for ACP, and we had some problems in the budgetary area, but I know that Ed Jones, as chairman of the subcommittee, and I are, to use your words in comparing it with the aquifer of the equus beds, recharged, and we will go back trying to insure that this does have not only adequate funding, but adequate funding for long-term future of America.

I'm not sure that on the conservation issues that we have any questions from the panel, but I do want to ask Dale Lyon a question, if that is possible, on the farm credit issue.

I've heard about variable rate mortgages before in connection with a variety of nonagricultural housing programs and it's a fairly controversial thing. Are you saying that we should remove authority from, let's say, the Federal land bank or any other lending programs under which we have jurisdiction, to offer variable rate mortgages? Would that be—

Mr. LYON. Well, I think we get involved in real estate loans, which the Federal land bank is involved in, long-term loans, you will find—might find them in this room—that borrowed their money at 5 percent that are paying 10 or 10½ now on money they borrowed umteen years ago under entirely different circumstances, and I think there's two issues involved here. One is that that is—while the rules of the game here, where the borrower, the consequences are suffered by the borrower. He pays the bill.

And the other thing is the thing that I alluded to in my testimony, that there is a tendency, you know, too, oh, heck, you know, money is easy to get, just pay the tab.

We have a tremendous lending agency in the Federal Farm Credit Administration that borrows millions, I suppose, of dollars a year, and it seems to me if they can turn around and loan the money and get whatever the going rate is, just calculate it out and collect it, that the necessary guidance of restraint to go out on the market and get the money at the cheapest possible rate—and I don't really think the Federal Government itself ought to, in carrying out its own policies, really accelerate inflation.

And interest rates are inflationary regardless of what our Federal Reserve says.

Mr. GLICKMAN. Thank you, Dale.

Mr. JONES of Tennessee. May I ask another question, Dan?

Mr. LYON. Doesn't production credit practice variable interest rates?

Mr. LYON. I would like to say that I am not really expert in it, I don't know whether they do or not.

Mr. JONES of Tennessee. Does anybody here work with PCA in the audience? I was of the opinion that their money was variable with the market. The Federal land bank does not, though.

Mr. LYON. Production credit lending is an operating, and it's much more short term—well, it goes on forever, but you're supposed to make peace once a year.

Mr. JONES of Tennessee. Mine has gone forever, too.

Mr. LYON. Yes; mine, too. I don't happen to be a borrower from PCA, but—

Mr. JONES of Tennessee. I think they have variable rates.

Mr. LYON. The rural banks where I do business for the term of that loan the interest rate is the same.

Mr. JONES of Tennessee. They are?

Mr. LYON. To the bank that I do business at.

Mr. JONES of Tennessee. I need to know where that bank is.

Mr. LYON. There is a limit on the note, that's true.

Mr. JONES of Tennessee. I think more and more banks in this country I know are going to the variable interest rate. I guess they have to do that because of the high money. I don't know anything about banking.

Mr. LYON. Might be of some consideration to think that that has something to do with how easy the rate gets.

Mr. GLICKMAN. Of course, I remember—this is just aside—when I first got my home mortgage I got one of these variable rate mortgages from a bank. It was very nice, I borrowed at $7\frac{3}{4}$ and then the interest rates went down to $5\frac{1}{2}$ and I can get the benefit on the way down, but that, of course, we haven't had any benefit for about 3 years.

Mr. LYON. I think the prime rates doubled in what, last 2 or $2\frac{1}{2}$ or 3 years?

Mr. JONES of Tennessee. I think that's something we can investigate.

Mr. GLICKMAN. We will look into that issue, because I wasn't aware of the involvement of variable rate mortgages in the farm credit system.

Mr. LYON. At the rates, you know, gentlemen, that you borrow money today on land, you're talking lots of bucks, a lot of dollars, and when you change an interest rate a quarter to a half percent in a 90-day period you're just jacking up that fellow's production costs by quite a number of dollars a lot of times, and he just—the wheat doesn't get any better because the price of the interest goes up. But I realize that is one of the things. I think a limit should be placed on it.

Mr. GLICKMAN. Thank you. Does anybody else in the audience have anything that they would like to say in reference to any of the issues that we have talked about before?

Mr. RAY. Jim Ray, State ASCS executive director. I do not wish to make a statement today, but I would like to cover two papers for the record explaining, if you will, the history of the 1978 ACP, the uses made of the cost-share funds, percentages used for each of the various practices authorized in 1978, and also another paper that will describe the approved practices for the 1979 ACP in the State of Kansas, if I could, please.

Mr. GLICKMAN. They will be made part of the record. I would just like to say gratuitously, I know that you've done a very fine job in managing the State ASC operations and I see a lot of nods of heads around here. It is not a very easy job to do. I never hear anything negative about the way you operate the State system. So I would just like to make that part of the record. Herb Edmonds?

Mr. EDMONDS. I'm not sure it's a statement, comment or question for the State committee, but in our county, on the local situation at this point, last year we constructed in excess of 30 dams, then a structure failed back east that was not specifically designed by ASC.

The emotion got so strong that our specifications have gotten so strict that this year we only have three structures built. The problem that I want the answer for is, are we going to lose the money that we would normally have spent?

Now, you have assured us that we can carry that over into next year's money, but will our next year's allocation be reduced by an equal figure?

Mr. GLICKMAN. Is there anybody who can answer that from the State of Kansas?

Mr. SMODER. Al Smoder. I don't think we can say at this time, Herb. I don't know whether this is really the place to really discuss this type thing, but again to reiterate, we are of course allowed, permitted, if you will, to carry forward to the next fiscal year any unused funds the counties may have not obligated during a previous fiscal year. I think we have to be realistic in the fact that counties with an outstanding balance at the end of the fiscal year have funds that they might go ahead and continue to operate in a continuing conservation program. Therefore, I think we will have to look at county allocations to some degree in regards to the amount of money that they may have carried over the previous year.

This is just the way it works. I think that would have to be taken into consideration. I don't think a decision has been made at this time in regard to that, but it would have to be something that would have to be taken into consideration.

Mr. EDMONDS. In rebuttal to that I hope Kansas' allocation will not be reduced by the amount of funds.

Mr. GLICKMAN. I would assume that our good people over there will fight to make sure that doesn't happen and will let us know if it looks like it is happening.

Mr. EDMONDS. That was my purpose for bringing it up.

Mr. GLICKMAN. You made your point. Before I turn it back to Chairman Jones I would like to thank you all for coming here. This has been an extremely productive day. I am not sure when we will be actually marking up legislation, but sometime toward the end of this year or next year, but I appreciate the good quality testimony. I would also like to make a point of thanking the reporter for his quality work here—in fact the chairman made a point that he is one of the nicest reporters he's ever had, and also I might mention a couple other things.

We will have several pieces of legislation affecting farm-related legislation coming up during the next 6 or 9 months, some of which are under the jurisdiction of Mr. Jones' committee. One is the Federal crop insurance which is quite controversial, but will be coming up this year, I would expect. It has passed the committee and will be coming to the floor.

As you know, the disaster program expired yesterday or the day before, so we are going to have to do something in order to protect farmers against that type of peril.

The other thing that we will have is that at some point there will be a bill we passed out of committee raising target prices for wheat and feed grains from the 1979 year up about 17 percent which, of course, is a bit academic now, but we need to have that program extended into the next fiscal year also along with providing compliance with NCA's and raising that target price up more than, obviously, more than 363 which is what is contained in the English committee.

I think Congressman Sebelius is going to offer a bill to raise that up. I don't remember whether it is 380 or 390.

But, in any event, those issues most farmers tell me that they believe that we have to have an NCA and need to raise that target price, and I don't know whether that will mean any additional increase in the loan support price or not. I think Kansas would like to see that. I'm not sure what the administration would say, but those will be two pieces of legislation that we will have that will directly affect grain farmers.

There will be other bills, sugar legislation, gasohol legislation, but those two pieces of legislation will be coming up I would say in the next 60 to 90 days.

In addition we talked about the Great Plains program and farm credit legislation which will probably come up in the next 6 to 9 months, I guess.

So, Chairman Jones, I would give the program back to you at this point.

MR. JONES of Tennessee. Thank you, Don. I'm going to make it short, because all I'm going to do is say it has been a great day for me. I have enjoyed immensely the new friendships that I have made here and also the old friendships that I have seen again.

I have talked to several who were in our national meetings in various places that I have been, and also as they come to Washington. I appreciate very much what John Adrian said, and I don't think I need to reemphasize what he said, but there is a lot of wisdom in words that he expounded along here and, believe you me, I believe exactly what he said.

There is no problem with the Great Plains program, gentlemen and ladies, your subcommittee and your full committee will be supporting that program without any problem. I like what Bob Bender said, I wrote it down, in case our court reporter didn't understand it fully—you leave that out—but he supports the Great Plains program and he said what it really needs is support and expansion. That is what I want to emphasize, the fact that our conservation work will never be completed, as several of you said, and we are looking at a program now that will not be ready for a lot of legislative work in even the near future. That will be long-term planning for conservation. Your NACB association is strong for something in that regard, the ASCS, the ASPS, the National Limestone Institution, Bob Cook, all of you know him, all support something that we need in the way of long-term incentive programs in order to get a farmer to conserve this soil, not make him do it, but give him an incentive to do it.

John, you and I have talked about this a lot of times, some of the rest have, too, there's some ways to do it, folks, just think how we built the national highway system, the Interstate Highway System, through a trust fund. There are many ways that we can get along with our business if we will just take some examples out of some other people's success stories and come up with something that you and I can be part of, and will be paying for them at the same time, but why shouldn't we have a parity, why shouldn't we be paying part of it?

The conservation problem in this country is so serious and so great that there is no way that the Federal Government can do the whole job by itself. I live in a district of 29 counties that lie west of the Tennessee River, which I represent 15 of them, where we lose from 30 to 50 tons of topsoil per acre per year. And it is very, very productive land. We don't have any trouble making a bale of cotton per acre, 30

and 40 bushel of soybeans per acre, and all that. But what is going to happen to generations after us?

We have changed our way of farming, we have gone to row crop production all over the country and you're going to keep on doing it as long as soybeans and wheat and the other row crops are in need like they are, and that's our future, there's no doubt with the recognition of Red China and a few other things that has been done by our Government that our products are going to increase by the day and demand is going to be upon us to produce, and we are going to produce. We won't quit, we like to do it. So I think we got our work cut out for us. You've got yours cut out for you. We want to work together and help you every way we can, but we need your help.

One word about Federal crop insurance. Controversial, sure, it is, but we've got a good Federal crop insurance bill, we have been told by the Secretary of Agriculture—maybe many of you know him—and I think he's one of the outstanding men of this country as far as agriculture is concerned, but he tells us that school's out as far as disaster is concerned.

We're not going to have any more disaster program, and if we're not going to have we might as well build us one. We can do it with the Federal crop insurance program, if we can get the House and Senate to pass it.

The Senate has already passed it. So whenever you speak a good word, don't believe all that's being told, all the bad things that's being told about the Federal crop insurance program. There will be some people in the private insurance sector saying good about it.

So, Dan, I do appreciate the day that I have spent with you, and we've got to go to Aberdeen, S. Dak.

[Whereupon, at 4 p.m., the subcommittee was adjourned.]

[Additional material submitted follows:]

STATEMENT OF LEO BERGER, PRESIDENT, COLORADO ASSOCIATION OF SOIL CONSERVATION DISTRICTS, HUTCHINSON, KANSAS

The Colorado Association of Soil Conservation Districts presents the following statement in support of the current conservation programs. My statement will include support of the current program with needs for increases in some areas. I will also suggest some areas for modification and improvement.

Let us begin with the most basic item in the soil conservation program, conservation operations. This item is the bottom line for the conservation program throughout the nation. If local soil conservation districts are stripped of their ability to provide technical services to land owners and other units of local governments when requested, the conservation movement in the United States is out of business.

Currently, we are at a minimum level of technical personnel to meet the requests for technical assistance being asked of districts. There is grave doubt we will be able to keep up with increased demand in Colorado. Expansion of energy development and the thrust for water pollution control under P.L. 92-500, may result in long waits for technical assistance unless we can increase the work force of technicians and conservationists in this state.

Also included within the Conservation Operations program are the Plant Materials Program and the Water Supply Forecasting Program referred to as SNOTEL. Both of these programs are critical to our conservation efforts, not only in Colorado, but throughout the western U.S. With increasing pressures from the energy industry, the pressures for land reclamation will increase. The state has adopted strict reclamation regulations. Our ability to develop new plants and adapt other plants to land revegetation will be pressed to the limit. Here in Colorado, the federal input is strengthened by state, local, and private industry assistance.

The Water Supply Forecasting Program is a key tool used by all levels of government and private entities to forecast the quantity of water available for the dry summer months. Even though private and state agencies make extensive use of the data available, the largest use of data is made by other federal agencies such as the Corps of Engineers, Bureau of Reclamation, and the National Weather Service. The strength of the program has been its region-wide coordination and quality control of the data base. To lose that component of the Water Forecasting Program would be tragic. Local land owners and irrigation districts use the information in crop planning and irrigation water management. Some savings of dollars and personnel will be realized when the SNOTEL system is fully in place and operational.

Another conservation program having great importance in Colorado is the Great Plains Conservation Program. The strength of this program is in its success. It has worked in Colorado. It is a model conservation program because it includes a long-term contract with a land owner based on a total conservation plan for the land holding. The conservation practices in the program are permanent practices for the most part, and each contract is fully funded when approved, thereby guaranteeing that the land owner has the necessary time schedule for installing the practices in his contract.

As of September 24, 1979, we have 60 approved contracts for a total of \$850,000 waiting for available funding. For FY 1979 our budgeted amount for Colorado was \$1,270,000 and it was entirely contracted by September 30, 1979.

We experienced severe drought conditions in Colorado during 1977. That was the driest year since 1954, and in some places since the 1930's. However, because of the contributions of the Great Plains Conservation Program and other conservation measures promoted by the soil conservation districts, we kept the number of acres actually damaged by wind erosion to 2,820,000.

We support the extension of the program through at least 1985, when the five-year appraisal of the Resources Conservation Act of 1977 will be presented to the Congress. We favor H.R. 3789 expanding the number of counties to be included in the Great Plains Conservation Program, as well as removing the financial limits of the program.

A third portion of the conservation program which we support is the Resource Conservation and Development Program. We have five funded projects in this state with two additional applications pending. This program has been of great benefit to local communities. One county was able to decrease its unemployment from about 25 percent to less than the national average, through an RC&D Project-use of Title 10 Department of Labor funds.

We suggest some modifications and changes in the RC&D Program. Because this program is built on increasing local participation in identifying and solving their own problems, the reporting procedures need to reflect the effectiveness of the associated measures. We believe the program can be further strengthened by increasing the pool of persons who may be Project Coordinators to include other specialists from USDA agencies such as Extension Service and other state agencies. The administrative and supervisory direction should continue to be under the Soil Conservation Service.

Through integrating this program with other efforts at rural development within USDA, we can have a much stronger effort in rural development, controlled by the local people on the RC&D Council.

We support the continuation of the Watershed planning and construction program. Again, the benefits realized by the entire society are as great or greater than to an individual land owner or local unit of government. We, in Colorado, have work to do within the state. We need to change some of our state statutes so watershed projects can become even more beneficial to us than they have been in the past.

In closing, I want to make two general observations. First, we strongly support the consolidation of all soil conservation programs under a single federal agency. Only through such a coordinated program can we realize the greatest effectiveness and efficiency of conservation measures and increase our cost-effectiveness. We need to separate conservation programs from production-oriented programs. An effective conservation program must be *voluntary, long-term* and based on *permanent* conservation practices.

Second, there has been increasing discussion of some economic incentives for the conservation movement. We are in favor of such a program based on a

voluntary commitment by the land owner and his desire to be an effective conservation systems manager.

Thank you for the opportunity of submitting these comments on the effectiveness of the conservation program in Colorado

HUMBOLT, KANS., September 25, 1979.

Chairman Ed Jones,
House Agriculture Committee's
Subcommittee on Conservation.

DEAR CONGRESSMAN JONES: Conservation is important. It saves our soil and water. It would not be possible to export the billions of dollars in agriculture commodities if farmers had not carried out conservation on our lands. The production would not have been there. We would not have had the production to export, to pay for the billions of dollars of crude oil we import.

My farm had many gullies in the cropland, gullies so large that a tractor could not cross them and they were getting larger all of the time. With ACP cost share funds I was able to have sod waterways and terraces built. Without these funds I could not have afforded them. Needless to say this land is now well terraced, is productive land and something I am proud of. This productive land is providing food for us all, but without conservation it would have been 100% non-productive land, better known as go-back land. Conservation has been a great program. Let's improve on it and keep it that way.

ACP is doing a good job in my county. We have 170,000 acres of cropland and the county has an annual rainfall of 40 inches per year. During the past 12 years farmers have built 424 miles of terraces in my county. Without cost share many farmers could not have financed this work. The same is true for other needed conservation practices. Conservation in my county is doing a good job, we just need more money, not less. The amount of conservation money should be increased each year at least by the amount of the cost of living. Contractors rates continue to go up, and less and less conservation work is done because the money for cost-sharing does not go as far.

County Committees should have more say on conservation practices to be selected. The reason I recommend this is because the conservation practices in one part of the United States does not necessarily fit another part, and so the practices needed do vary by area.

I think a Trust Fund to provide funds for basic soil and water conservation practices would be good. This would provide a source of revenue to do needed conservation work on our soils, to protect and save our soil for the future generations.

The ACP program should continue to be administered as it has in the past with ASC county committee administering the funds and SCS doing the engineer work. Engineering practice designs should be developed in consultation with state or county committees, not 100 percent by engineers, since they can become so involved in their design they lose sight of the practical part of the structures being designed. They tend to develop specifications that "kill" a practice, because of such tight requirements that cannot be justified but can be required by them.

I am a farmer, and have been all of my life. I am at the retirement age, but I would hope that through these hearings a good, sound, financed ACP program will be developed, which will continue to carry out needed conservation on our land through ASC County Committee System.

Sincerely,

ORVILLE CROISANT.

OCTOBER 1, 1979.

TO WHOM IT MAY CONCERN: My wife and I have in our name 600 acres of farm land, normally we have 200 acres in grain crops and the balance in tame or native grass. We have a herd of 50 beef cows on this unit, and until last year we operated it ourselves, presently we are renting out part of the crop land.

We consider ourselves conservation minded Americans. Since we have put this unit together we have built seven stock water ponds, terraced 110 acres, built 3 waterways, and seeded 100 acres to tame grass. Recently we purchased

120 acres of this unit and conservation practices not already established are under way and plans are to complete them.

The conservation practices on this unit have substantially all been done under the Agriculture Conservation Program (ACP).

This is a unique program where the farmer and Government form a partnership in carrying out needed soil and water conservation practices. With the Technical Services performed by one agency and administered by another. To my estimation this has been a very satisfactory arrangement over the years, and a tremendous amount of sound conservation has been accomplished.

There is the 208 water act and similar programs that have been kicked around. It appears to me we have too much duplication in government programs already.

The 208 act is an example.

I invite those responsible to take a look at what it has cost since the 208 act has been brought about just exploring its implementation. The amounts in man power and dollars would have bought a lot of conservation under the present program.

Over the years experience has proven the farmer used ACP to preserve the vital resources. Rather than add programs, why not improve what we have. With adequate funding, some improvement, more teeth in requirements, and beefing up personnel if necessary would be a simple economical way of getting the job done with what we have in ACP.

The present program could be broadened very easily to meet the needs of all farmers, to get the conservation on the land, that's really what it's all about.

I would suggest a tax of some sort to provide a part of the needed funds, and some incentive for the farmer to want to get the job done on conservation. After all the farmer doesn't own the land he's only using it while he's here, why not let more of the people who are enjoying the fruits of it have a little more stake in preserving it for generations to come.

In closing the present agencies are made up of good people. However, they spend too much time and money trying to add programs or gain control, when they should be working for the benefit of all the people, in trying to improve the present program rather than create new ones.

We have the necessary tools to do the job with, why not use them to the fullest extent in getting on with the job.

Respectfully,

KENNETH STOCKEBRAND.

STATEMENT OF JACK H. BARTON, PRESIDENT, ON BEHALF OF THE FEDERAL INTERMEDIATE CREDIT BANK OF TEXAS, TEXAS FARM CREDIT DISTRICT

Mr. Chairman and members of the Subcommittee, I am Jack H. Barton, president of the Federal Intermediate Credit Bank of Texas. I represent more than 15,000 Texas farmers and ranchers who borrow their yearly money requirements from the Production Credit Association in Texas. Annually, my Bank loans almost \$2 billion to Texas farmers and ranchers to ensure the continuance of food and fiber production in Texas.

My District has elected to support 100 percent H.R. 4782 and S. 1465, the Farm Credit Act Amendments of 1979. In our opinion, this legislation, if passed by Congress, would continue to allow the Farm Credit System to do what Congress more than 60 years ago intended the System to do and that is to finance food and fiber production effectively and efficiently.

It is not news either to the distinguished members of this Subcommittee nor to Congress as a whole that agriculture is changing and changing rapidly. Consequently, it is imperative that the institutions which finance agriculture change also. Almost ten years have passed since any major changes were made in the lending authorities of the Farm Credit System.

There are those who would consider the changes proposed in the amendments to the Farm Credit Act of 1971 as major. There are others who would consider these changes as minor and merely a clarification and a broadening of the Farm Credit System to the extent to which we referred previously—the financing of agriculture as it is changing.

There are those special-interest organizations that would seek to amend the original legislation as passed by Congress in 1971 and would dilute the original intent of that legislation.

We would hope that our present Congress would not elect to allow these amendments or deletions. The Farm Credit Act of 1971, as amended, served the farmers and ranchers of the nation well until this point in time. To dilute the legislation of 1971 would place the System in a position of starting again and not recognizing the many changes that took place in agriculture prior to 1971, and, consequently, do a disservice to the farmers and ranchers who feed this nation and a large segment of the world's population.

Those who have studied and are aware of the Farm Credit System and its history for the past 60 years know that it represents the epitomy in farm credit. There are few people anywhere who would not look to our System and say we have done our job and done it well. We have done this job without cost to the taxpayer. We would hope that those who would challenge our legislation or would take actions which would amend this legislation would evaluate our System today and agree. We would hope that they would allow us with this legislation to continue to do our job and do it well, again without cost to the taxpayer.

Gentlemen, be assured Farm Credit only goes to Congress when: (1) it needs a change in the law to serve farmers, ranchers, and cooperatives more effectively; and (2) when there is broad support for the proposal throughout the System and throughout agriculture generally.

We ask the support of this Subcommittee on behalf of the Farm Credit System of Texas in passing the Farm Credit Act Amendments of 1979, H.R. 4782.

STATEMENT OF FARM CREDIT BOARD OF TEXAS ON BEHALF OF THE FARM CREDIT BANKS OF TEXAS, TEXAS FARM CREDIT DISTRICT

RESOLUTION

Whereas, there is pending in Congress legislation to amend the Farm Credit Act of 1971, identified in the House of Representatives as H.R. 4782 and the Senate version S. 1465; and

Whereas, the introduction of this legislation was the result of long study and deliberation by numerous committees and boards that involved every element of the Farm Credit System; and

Whereas, it was the view of this broad spectrum of opinion that certain legislation was necessary to carry out the spirit and intent of the Farm Credit Act of 1971;

Now, therefore be it resolved, That the Farm Credit Banks of Texas commit their full support to the passage of this legislation that it may be enacted into law, unamended.

Be it further resolved, That this resolution be widely distributed and that directors and employees of Banks and Associations are urged to support this legislation both as entities and as individuals.

STATEMENT OF L. C. UNFRED, PRESIDENT, ON BEHALF OF THE PLAINS COTTON COOPERATIVE ASSOCIATION, TEXAS FARM CREDIT DISTRICT

Farmers as producers of agriculture products are, as a whole, engaged in the single largest business in America today. The farmer, through his cooperative, markets his products in an efficient manner.

The cooperatives, as well as the farmers are not in a position to "pass through" their ever increasing cost of production and operations like other larger corporations. The decreasing profit margins at the cooperative level is brought about by its inability to market in world trade due to the restrictions by law involving the Banks for Cooperatives financing of export business.

On the other hand, the large corporations engaged in exporting of farm products are not restrictive to the degree the Banks for Cooperatives are, so they enjoy a great advantage at the expense of the farmers.

The favorable change in the regulations or law to allow the Banks for Cooperatives to engage in export financing would greatly enhance the farmers income thereby allowing him to stay in business and contribute more to the United States government in the form of tax dollars.

The majority of cotton produced in Texas (number one in the United States) must seek export markets. Without these markets, there would be catastrophic losses throughout the state and for supportive industries.

On behalf of the 24,000 members in Texas and Oklahoma, we urge support of the legislation in allowing the Bank for Cooperatives to fully engage in export financing of American farm products.

STATEMENT OF HAROLD L. TEEL, PRESIDENT, ON BEHALF OF THE COASTAL BEND PRODUCTION CREDIT ASSOCIATION, TEXAS FARM CREDIT DISTRICT

Mr. Chairman and members of the Subcommittee, I am Harold L. Teel, President of Coastal Bend Production Credit Association of the Texas Farm Credit District. Our Association has assets of over \$35,000,000, serves eleven counties in Southern Texas, and is headquartered in Robstown, a small, rural and predominantly agricultural community. The Farm Credit System's entry into the public money market to secure funds is second only to that of the Federal Government. Moreover, these funds presently meet one-third of the Nation's total agricultural credit needs. I appreciate this opportunity to present this Association's views concerning HR 4782, the Farm Credit Act Amendments of 1979 and wish to thank you in advance for your time and interest invested in agriculture.

In my 38 years in the Farm Credit System and 13 as President of this Association I have seen agricultural productivity improve dramatically. Through the farmer/rancher's ingenuity, state universities research, and creditors' financial assistance yields are higher and more consistent, fewer man-hours are needed, and the quality is better.

But, while production techniques have shown continued improvement the marketing methods have changed slowly. Farmers and ranchers also continue to sell most of their production in a raw state before any processing.

Granted, we have been financing some marketing/processing facilities but with the existing 50 percent through put requirement our service in this area has been extremely short. Our experience is that in order to construct an economical gin, gain warehouse, or feed lot the size is such that most operators cannot personally utilize 50 percent of the capacity. We feel confident that a more reasonable percentage possibly in the area of 20 percent would permit us to assist the farmers, ranchers or fishermen in expanding their development beyond just the production stage. HR 4782 grants us this authority and the producer access to a means which would help give him the profits that are rightfully his.

Other areas to consider are credit availability from other sources and the cost of that credit. Our position on the first point is that we are agricultural credit specialists. Our 45 year history is a proven one. We are here to stay. We have confidence in the viability of the well thought out marketing, processing facility just as we do in a good farming, ranching or fishing operation. This confidence in agriculture and our proven history in providing a service we hope convinces you we are worthy of this new latitude.

Besides dependability we have a long history of interest rates which are more than just competitive. Our history of limited losses and minimal overhead are sighted as the reasons. As you are probably aware we are and have a cooperative spirit. Our only profit motives are to develop adequate reserves for losses and capital structure.

As I have tried to convey, the farmer, rancher and producer or harvester of aquatic products need to expand their expertise substantially beyond the production stage. The dependability and availability of credit to the operator for the construction and operation of marketing and processing facilities has been lacking. We, the Production Credit Associations and Federal Intermediate Credit Bank of Texas have not only proven that we have credit available and dependable but it is at a rate which is also affordable. This is an area which has historically had an unsatisfied credit need and we would like the opportunity to fill this void.

What I have said may appear biased, but I feel confident it is shared by all the PCAs and Federal Intermediate Credit Banks across the country, as well as by operators who have either dealt with PCAs or have tried to find satisfactory credit for their marketing or processing needs elsewhere. I would be more than happy to respond to any questions but apologize for not being there to answer them verbally.

FEDERAL CONSERVATION AND FARM CREDIT ACT AMENDMENTS

WEDNESDAY, OCTOBER 3, 1979

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CONSERVATION AND CREDIT
OF THE COMMITTEE ON AGRICULTURE,
Aberdeen, S. Dak.

The subcommittee met at 9:30 a.m. at the Sheraton Motor Inn, Aberdeen, S. Dak.; Hon. Ed Jones of Tennessee (chairman of the subcommittee) presiding.

Present: Representative Daschle.

Staff present: Robert A. Cashdollar, Wayne Fletcher, and Frank Winston.

Mr. DASCHLE [acting chairman]. I want to welcome all of you to this hearing of the Conservation and Credit Subcommittee of the House Committee on Agriculture. I want to take this opportunity to thank the distinguished chairman of this subcommittee, Ed Jones, of Tennessee, for agreeing to come to South Dakota to hear firsthand from South Dakotans who have lived and worked with conservation, and many of them a good many years. To my knowledge, this is the first time in a long, long time that a committee of the House of Representatives has come to Aberdeen. And in fact, I think it is the first time that a chairman of a particular committee has come to Aberdeen, S. Dak.

Congressman Jones, for those of you who don't know him, is a strong friend of conservation and conservation programs and certainly doesn't need to be convinced about the importance of programs that we will be discussing today. However, it is my hope that we, as members of the House Agriculture Committee, will be able to take the information that we gather back to Washington to our colleagues who are less concerned about conservation but are interested more in glamorous programs than the Great Plains conservation program and the agricultural conservation program.

Our Nation's agricultural producers retain the label as being the most efficient producers in the world. The need for wise conservation practices to best utilize our Nation's cropland is apparent if projections of the world's population hold true of 6 or 7 billion by the year 2000. In order to maintain productivity over time, soil scientists estimate an annual soil loss of no more than 5 tons per acre in deep soils and 1 ton per acre in shallow soils. The length of time required to regenerate this top soil rests in the hundreds of years. A recent Government Accounting Office study sampled farmers and in 10 counties located in 8 States to evaluate the severity of soil erosion on their land as well as to determine the effectiveness of current soil

conservation programs dealing with this erosion problem; 88 percent of the farmers in the GAO sample realized an annual soil loss of more than 5 tons an acre. This level of soil erosion is the maximum acceptable level which could occur without loss of productivity. An Iowa State University research report recently indicated that today's farmers are annually losing through water erosion an average of 12 tons per acre as compared to the 1934 level of 8 tons per acre. This same report indicates that it would take a train of freight cars about 633,000 miles long to move the 4 billion tons of soil that is the annual loss of erosion due to water; a train long enough to circle the Earth 24 times.

The Federal Government on various occasions has attempted to respond to this need through the enactment of several widely used conservation programs, and among those are the conservation operations program, the agricultural conservation program, the Great Plains conservation program. The ACP spent nearly \$265 million nationwide during 1978 to encourage soil and water conservation practices by providing cost-sharing assistance. Through the administration of the ASCS local county committee, the Government pays between 50 and 75 percent of approved conservation practices. Nearly 580,000 landowners annually receive the cost-sharing payments as a result of performing of these conservation practices. Although we will be hearing about many different conservation programs, because of the impending termination date of the Great Plains conservation program, much of the testimony in the subcommittee today will center around this program.

I want to again commend the chairman of our committee and welcome him to Aberdeen and turn the program over to him.

Mr. JONES of Tennessee. Thank you very much, Tom. And let me say to you that I am delighted to have the privilege of coming to your congressional district for the purpose of holding this hearing on the Farm Credit Act and also the Great Plains conservation program that we hope to continue as far as the Great Plains is concerned and to develop as far as conservation is concerned.

I want to say to you people that we appreciate Tom Daschle very much on the full Agriculture Committee. He has made a good contribution to the work that has been done there. We have had a very, very busy season since he has been there. And I think that you folks out here don't need for me to tell you, but I do want you to know how we feel about him there because I know how you feel. But he has done a good job and, Tom, I can't say too much for you as far as Conservation and Credit Subcommittee is concerned, because you have been a contributing factor there. We have had lots of work to do in the 96th Congress and we have been very busy. He is good at attending the meetings and participating in the programs that we always are confronted with.

But I am, as chairman of the committee, delighted to get to come out here and we feel that we can get some facts from you people by coming to Aberdeen that we cannot obtain when we hear you in Washington. We feel that we need both. And we also like to do this first and then have a final hearing in Washington for some of the people there who want to testify.

I want to introduce the staff that is with me today who works for our subcommittee. Bob Cashdollar is my staff on the Conservation Subcommittee. Frank Winston is on the minority staff on the full committee. Wayne Fletcher is the minority staff on the Subcommittee on Conservation and Credit. Our ranking subcommittee member is Congressman Ed Madigan of Illinois and he is directly responsible to Ed for much of the work that he does.

We are going to move on and hear the witnesses as they appear as Tom has them outlined. Let me say to the witnesses, that we want you to be free to act just like you want to. We are no special people. We just happen to be here in front of you today for the purpose of listening to you. So we don't want to see you frightened or embarrassed or any problem like that at all. Just talk to us like you were out on the farm or somewhere else, as informally as you would like. If your testimony is written and you want to read it, that is well and good. If you prefer to summarize it, you may do that and we will still make your written testimony a part of the record. You may do it either way. We are going to move as fast as we possibly can, and when we have heard all the witnesses this morning, we will then call all of you back to the microphone and there may be a few questions that Tom and I would like to ask you. But we will not ask you any questions while you are testifying. We will just do it all collectively. We feel like this is the best way to do it. We think that it is a little easier for the witnesses to do it that way, and we know that you save some time.

Tom, if you want to take over and call your first witness, we will move on.

Mr. DASCHLE. Mr. Chairman, the first witness is a State legislator from Brown County. He is the minority leader in the State House of Representatives. He has long been probably one of the most successful farmers in the northeastern part of the State. He certainly needs no introduction here in this area. His name is Lars Herseteth, and with that, I will bring Lars to the podium.

Mr. HERSETH. Chairman Jones, Congressman Darschle, as a representative of Brown County, I would like to thank you for holding this subcommittee hearing in Aberdeen and in Brown County.

**STATEMENT OF R. LARS HERSETH, STATE REPRESENTATIVE,
HOUGHTON, S. DAK.**

Mr. HERSETH. I think it indicative that in this area of the Great Plains that the programs that we will be testifying about. I would believe we are almost unanimously in support of. And as far as conservation goes, that this area is one that uses those programs, whether they be through the Great Plains program or the agricultural conservation program.

I know in Tom's introduction of me, if I were here this afternoon and my banker testifying in the line of credit, that he would probably have some other remarks to add to that introduction. I am certain that the problems relating to conservation in South Dakota will be well documented and are well documented even with the introduction of Congressman Daschle's amendment. But I think it does not take one traveling through South Dakota long to realize that those problems

that we have here in the State are with us today and becoming probably increasingly devastating to the soils in our State. We look at shelter belts that were put in during the 1930's and after the 1930's that are now deteriorating in nature. We look at those in my particular area, and I farm and ranch north and east of Aberdeen in a very sandy soil complex, and during the 1930's it was hard to see across from the house to the barn, a distance of maybe 100 yards. In 1975 and 1976 we had other days like that. And, of course, we went through a drought period that was comparable to the 1930's. I think the consequences of the 1975 and 1976 drought were not as severe due to conservation practices that farmers have sometimes on their own taken and put into practice, and also through cost sharing programs sponsored by the Federal Government.

I look at the shelter belts that we have today deteriorating and needing funds available to not only renovate, but to put in more shelter belt areas. We see too many shelter belts, in my opinion, being taken out when they have gotten to the deteriorating state. We see some that are not in that state, but good shelter belts being taken out for irrigation purposes. And I think that some times in our programs we should look at some perhaps mandatory regulation that if one takes a shelter belt out that—not to prohibit him from doing that, but maybe to also replace that conservation practice.

We look at a lot of the problems in South Dakota as a result of a price increase in 1973 and 1974 in wheat specifically and in other feed grains and food grains. We saw at that time a lot of land that had been in grass in South Dakota, and probably should be in grass in South Dakota because it's very marginal farmland, broken up at that time. We saw not only that land that is marginal due to rainfall and quality of the soil, but also land that because of the steepness of the grade should never have been broken. And now we are faced with the fact that taxpayers down the line fund the recovering of that soil back to productive grasses, either that or having it wash away.

And I know that on a State level sometimes I have problems in not wanting some government involvement telling me or my fellow South Dakotans what to do with our land. But I think when we, as individuals, are starting to do practices and incorporate practices in our tillage programs that are detrimental that will have to be recovered by taxpayers' dollars in future generations, that we perhaps need some mandatory guidelines as to agricultural use. The problems, of course, with that runs into flexibility in Government programs, Government programs written in Washington covering areas of not only the Great Plains, but for both coasts. And certainly situations are different on the east coast or the west coast than they are in the Great Plains region as they are different between North Dakota and South Dakota. And that is sometimes our problem in working with those type of programs.

I think we have to look somewhat at the philosophy of conservation. And I know my preceding remarks may be somewhat tough on the individual who has been operating the land. And yet, at the same time, I think we have to realize that the best conservationist without any doubt at any time, whether it were dollars or other incentive-type programs, the best conservationists we have had throughout our agricultural history has been the farmer. He has put into practice many times

things to save his soil that benefited other generations. But it's much easier for that farmer or tenant of the land to put into practice conservation practices that give him immediate results. It's a lot harder for him to put into practice conservation methods and programs that probably will not benefit him.

I have a fellow that works for me and he is about 66 years old and thinking somewhat of retiring. But he has always got a few little stories. And one of them, he says, you know, I have planted a lot of trees in my life and he says, you know, most of those yet will never get big enough for me to ever sit in the shade. And I think that is what we are looking at. We are looking at putting in long-term programs that don't benefit immediately that tenant or owner of that land for 10 or 12 years and they will benefit succeeding generations. And, of course, that is the purpose and that is the substantive evidence I think in Government involvement in conversation practices.

And I certainly commend Congressman Daschle on his amendment to extend the Great Plains conservation program and to up its limits. Brown County, I believe, has only about 26 participants. But I think this is one of the areas that we have to be careful in, not only on a Federal level, but on a State level, and that is overlapping programs administered by different agencies. We have the Great Plains program that is somewhat similar to the agricultural conservation program administered—one through the ASCS and one through the SCS office. There are differences, and the biggest difference, of course, is that one under the Great Plains program brings the whole farm unit under conservation practices and it's a long-term plan; whereas through the ASCS office and agricultural conservation program it's kind of hit and miss, you know. And whether you dig out this year or whether you seed 20 acres or what, it isn't a long plan.

So I certainly see the need for both those types of programs. When I talk to individuals I represent in South Dakota, the general public sometimes becomes confused as to where all the programs are and who's administering all the programs and the redtape to go from one area to another area and through jurisdictions from Federal to State to local government. I think we should look at increasing funding and perhaps trying to put more incentives in these programs to participate in the long-term programs.

I look at that, and I will give an example as to why we look to the Federal Government for those incentives. Two years ago I introduced a bill in the South Dakota Legislature. It was not very ambitious in nature, but it was to give a tax credit for land that was taken out of production to be put into a shelter belt. And yet, the State had a limited financing situation and through administrative policies, being that we were taking revenue basically from local government trying to supplant them with revenues from State government, through those complexities the bill was not successful. We can look at that as an area maybe for Federal Government to give incentives, maybe in the tax area.

This goes beyond just giving a cost share to the program. It goes to giving them some long-term incentives. A farmer takes 10 acres of good, tillable, productive land out of production, pays taxes on it every year, puts it into a tree belt, tends that tree belt for 5 or 6 years and it's maybe 8 to 12 years before the benefits are starting to be received.

And by that time he has a considerable investment, even though there was a cost share on planting those trees. Probably it is a succeeding generation that will benefit most, and that is right. I believe in that philosophy. But what we need to do is create a bigger incentive for that original land tenant owner to put those practices into effect.

Sometimes when I go through the programs I believe basically in most of them and yet I think I would concentrate in certain areas that are the long-term conservation practices. I look at some of them that—and I am not anti-irrigation, but I sometimes look at those in irrigation as a short-term gain to the irrigator, and we maybe do not look at focusing any Federal dollars to developing irrigation under the guise of conservation. And I look at that as more of a short-term goal and not a long-term goal. And if we need aid in that area, then it should perhaps come from another entity or a different program.

I think the No. 1 incentive that I look at in programs that I consider for my ranch is that of the flexibility and local administration of the program. Flexibility in administration of that program is, I think, the No. 1 incentive that will get more landowners and tenants interested in conservation programs. If there is flexibility to handle differing economic situations and differing years as far as moisture from one year to the next, and we perhaps sit in a different situation in Illinois or in Iowa where it's hardly known sometimes what drought is. We go from one extreme to the other. And because of that practices would vary from one year to the next as to the amount of grazing, seed bed preparation in those areas. And that is why the administration needs to be on the local level and flexible to get the participant willing to participate in that program.

I would again like to commend both of you for holding this subcommittee hearing in Aberdeen, and I am sure that the one on credit this afternoon will be very interesting and I hope that I can stay for at least a part of it again. Again, I thank you for asking me to be a part of this testimony.

Mr. DASCHLE. Thank you very much. Lars. We will, as Ed said earlier, have some questions a little bit later on in this hearing.

I would like to bring up now the director of the Division of Conservation of the South Dakota Department of Agriculture, Mr. Keith Harner, and he will be testifying in a panel with Wilbert Blumhardt of Bowdle, chairman of the State conservation commission. If those two gentlemen are here at this time, we will take your testimony. Keith and Wilbert, we are delighted to have you appear before the committee this morning. I know that Keith is here with a statement from the Governor.

STATEMENT OF KEITH L. HARNER, DIRECTOR, DIVISION OF CONSERVATION, SOUTH DAKOTA DEPARTMENT OF AGRICULTURE, REPRESENTING GOV. WILLIAM JANKLOW; ACCOMPANIED BY WILBERT BLUMHARDT, CHAIRMAN, STATE CONSERVATION COMMITTEE

Mr. HARNER. Thank you very much. Congressman Daschle, and I am very pleased to be here before you and Congressman Jones and happy to present this statement on behalf of the Governor. It is rather

short. If you will indulge me, I would like to read it into the record for you. This is a statement by Gov. William Janklow with the concurrence of the secretary of the department of agriculture, Clint Roberts. I will read the statement.

At public meetings held in the state pursuant to the Federal Resource Conservation Act, South Dakotans identified the following major concerns: (1) Soil erosion; (2) Food and fiber production; (3) Water supply; (4) Water management; and (5) Land use. I believe these concerns are valid because agriculture is by far the leading industry in South Dakota and because our soil and water resources are the base for that agricultural industry.

Without proper conservation of our soil and water resources, our agricultural industry can soon be in serious trouble. This is particularly true for soil because soil for all practical purposes is a nonrenewable resource and because our soil in South Dakota is relatively thin due to the nature of our climate. Perhaps it is valid to say for the reasons just given that conservation on our soil resources is more important for South Dakota than it is for many of the other states, and because this state is in the nation's breadbasket, conservation of our soil is important for the nation, even though South Dakota is often overlooked in the national scheme of things because of our low population.

The five concerns identified by the public are actually quite interrelated. Soil erosion, water supply and management and land use all affect food and fiber production. Land use and soil erosion affect water supply and water management. Soil erosion is a problem in South Dakota. We have vast areas where geologic or natural erosion occurs. The erosion from these areas can be greatly accelerated by man's activities. These areas include our Badlands or our river banks areas. However, we also had erosion from other areas where the soils are better, but which are not being used and treated properly.

The concern about soil erosion and its attendant problems is nothing new in South Dakota. It has led to the formation since 1937 of some conservation districts within every county in the state. It led to the formation of a Conservation Commission and a small staff at the state level. It has led to some local funding of Conservation District activities by counties which amounted to about \$289,000 last year. It has led to the application of conservation practices by thousands of our farmers and ranchers. It has also led to the adoption of soil loss standards by most of our Conservation Districts.

These things that have happened for natural resource conservation have had a great deal of assistance from the federal level. We have had federal agencies supplying technical, educational and financial help through loans and cost sharing. The inspiration for conservation work has often come from dedicated federal employees.

A great deal has been accomplished in soil and water conservation in the last 30 years or so. However, unfortunately we have some negative forces at work, especially in the last few years. We believe we see a low priority given to soil and water conservation by the federal government. We have seen a decrease in federal technical assistance, and cost share assistance has not kept up with inflation. A major concern is that the federal government is apparently reducing its help because nonfederal activity is increasing. Yet, we believe the activity of all concerned should be maintained at levels appropriate to the seriousness of the problem.

We in South Dakota are concerned about negative forces at work on the local programs at all levels will place a high priority on national resource conservation of grasslands to croplands which all too often is not suitable for long-term use as cropland. I believe there are a number of factors behind this situation. Farmers and ranchers sometimes lose sight of the seriousness of the problems. Economic pressures tend to crowd the issue. This can lead to poor land use and insufficient use of good practices. It can even lead to the destruction of practices that have already been established. New technology such as approved drop variety and fertilizer tend to cover the loss of productivity caused by soil erosion. Some of our newer farmers and ranchers may not have lived through times when the results of soil erosion were most obvious and they need training and information on the dangers of soil erosion.

In view of this, I would have a few comments. I would hope that governmental programs at all levels will place a high priority on national resource conservation. I do not mean this in the sense of locking up the resources. I believe they

should be used in a way to maintain the productivity of our soil for all generations of people. I know there are budgetary constraints at all levels of government, but by placing a high priority on soil conservation I think we can devise programs that can be effective within those constraints.

I believe governmental programs should specifically foster the idea of good soil stewardship and the need for permanent conservation practices. I think there should be some cost share programs to protect the public's interest in soil conservation. If these are connected with long-term contracts it should help emphasize the need for permanent practices. It may even be necessary to develop a repayment of cost shares where practices are discounted short of their normal life span. I think the government assistance through loans and other programs should be analyzed to, one, minimize the economic pressures to use land for purposes for which it is not suited; two, provide incentives whenever possible to encourage the use of good conservation practices; and three, to recognize those farmers and ranchers who do practice good soil stewardship for their natural resources.

In summary, all levels of government should place a high priority on programs to encourage the wise use and conservation of our soil and water resources. This should result in a partnership of the public and landowners and operators, a partnership dedicated to the permanent productive land for the use of all generations of Americans. Thank you.

It's signed by Gov. William Janklow.

Mr. DASCHLE. Thank you, Keith. Wilbert, do you have a statement?

Mr. BLUMHARDT. Yes; Congressman Daschle, I have a prepared statement. It isn't too lengthy and I would like to read it into the record. Also I have copies of a statement from the North Dakota Association of Soil Conservation Districts. Their president talked to me the other day and wanted to know whether I would bring this in and present it to you. Since they are in the middle of harvest up there, he just absolutely couldn't get away.

Now, Congressman Jones, before I go into my statement here, I would like to say that 3 weeks ago today I was in your State, in the western part of Tennessee. We were on a field review of soil and water conservation practices and things of that nature, and we did get in on the tail end of Frederick. So we did see a lot of grain. I have a personal friend in the town of Somerville, I am sure you are acquainted with, John Wilder. I have enjoyed working with him for a number of years.

Mr. JONES of Tennessee. Well, let me say this. Wilbert, that we appreciate the fact that you were there. John Wilder is one of our outstanding conservationists of all times. I think he served more terms as president of NACD than any other person. He is now our Lieutenant Governor of Tennessee. I represent the area you were in. I am sorry I wasn't there.

Mr. BLUMHARDT. It was an eye-opener to me. It broadened my horizons since your problems are entirely different than ours. I would like to have some of your problems in the fact they tell me your normal rainfall is about 50 inches. I will take half of that and be very happy. I have a written statement here and I will read it.

STATEMENT OF WILBERT BLUMHARDT, CHAIRMAN, SOUTH DAKOTA STATE CONSERVATION COMMISSION, BOWDLE, S. DAK.

Mr. BLUMHARDT. My name is Wilbert Blumhardt. I am a farmer in Edmunds County, S. Dak., a conservation district supervisor in Edmunds County and Chairman of the South Dakota State Conservation Commission.

I want to express my appreciation to the chairman and the rest of the committee for holding this hearing in South Dakota and for the opportunity to present a few of my views.

I will start by stating my great concern over the reduction of technical assistance available from the Soil Conservation Service due to a cutback in manpower. First and foremost, we need trained technicians to assist farmers and ranchers with their conservation planning. Much of the planning and assistance deals with non-cost shared items. The reduction of manpower also has an adverse effect on the soil survey program. In South Dakota, we have an active soil survey program, which involves both county and State. This cooperation of local, State, and Federal has made it possible for the SCS to set a completion date of 1986 instead of sometime after the year 2000. Needless to say, these soil surveys are necessary for sound conservation planning. However, these soil surveys are just as important to planners outside of agriculture, so almost everyone benefits.

When we talk about applying conservation on the land, one of the most effective tools has been the Great Plains Conservation program. Not only is it effective, but it is also efficient since it involves a total plan on a unit and provides for the application of many non-cost shared items.

As a farmer, I had one of the first Great Plains contracts in Edmunds County. It has been completed for a number of years now, but I have maintained the practices to this date. I guess I would have to say the payoff came during the drought of 1976. We were able to keep our cow-call operation intact without any Federal assistance.

As a supervisor on the Edmunds County Conservation District Board, I am involved in the review and approval of every contract that is written in Edmunds County. Probably the most gratifying part of this is the large portion of the contracts that involve non-cost shared items. The operators that enter into these contracts certainly indicate that they are truly interested in applying conservation on their units.

As a member of the State Conservation Commission, my concern is for the entire State. Even though a tier of counties along our eastern boundary are not at present in the Great Plains Conservation program, I have great hopes that soon all of the State will be eligible for this program. In 1976, at the request of Governor Kneip, the SCS did an evaluation of the Great Plains Conservation program and its effectiveness against drought. The figures were quite gratifying; and, in the interest of time, I am attaching a summary of that report to this statement.

Although I have only mentioned the Great Plains conservation program, I would like to add that other conservation programs are also being used effectively in South Dakota.

I believe that it is imperative that every man, woman and child in this Nation realize that they have a stake in the conservation of our basic renewable natural resources. From these resources come our food and fiber. They help to set our standard of living and they generate a big share of the new wealth that sustains this Nation.

If every parcel of land is used within its capabilities, it will sustain itself perpetually. History shows that nation after nation had fallen primarily because their resources were abused to the point

where they would no—would not renew themselves. Let us learn from the mistakes of others.

In closing, let me state a few of the points I was trying to make: Instead of cutting the manpower of the SCS, it should be increased so that the demands for technical assistance can be met. We should develop a program similar to the Great Plains Conservation program that can be used all over the Nation with cost-share and other incentives so that we can continue our—to have voluntary conservation on private lands.

It is easier and cheaper to take care of our renewable natural resources now than to let them deteriorate to the point of crisis.

I do thank you for the opportunity to share a few of my concerns with you.

[The attachment to the statement follows:]

Drought Impact on Great Plains Conservation Program Participants and Non-Participants in South Dakota.

INTRODUCTION

South Dakota is facing conservation problems caused by drought. The upper Great Plains states report about 50 to 55 percent of normal moisture received in 1976. In response to a request by Governor Kneip of South Dakota, the Committee for the evaluation of GPCP for "draught-proofing" (Governor's Task Force) conducted a study to compare present condition of land units covered by GPCP contracts to those not having GPCP contracts. The purpose was to assess the effectiveness of the Great Plains Conservation Program in stabilizing conditions during drought (Advisory INTERA-SD-12).

PROCEDURE

Each field office used five contracts that were expired or approaching expiration and five non-GPCP plans as a sample. These were taken from travel groups to ensure uniformity. Field office personnel then completed a questionnaire for each pair of units. The questionnaire included such topics as condition of cropland cover for erosion control, number of acres affected by wind erosion, condition of grassland, adequacy of pasture, hay and water supplies and the status of the base herd size for 1976 (Attachment). Questionnaires were completed for each of the SCS administrative areas containing GPCP counties. Over 400 land units were surveyed, half GPCP participants and half non-participants.

RESULTS

The principal conclusions of the study follow.

1. Statewide average results indicate that about a 35 percent larger number of the non-participating land units have drought associated problems than of the GPCP participants (table 5, figures 1-7). Specifically:

	Percent
Require emergency pasture.....	41
Have inadequate hay supply.....	51
Require emergency hay.....	30
Have inadequate water supply.....	43
Are decreasing the size of the base herd.....	19
Acres of grassland are over-utilized.....	36
Acres of cropland have moderate to severe wind erosion damage.....	38

Mr. DASCHLE. Wilbert, I want to thank you for the statement. As the chairman said, we have all of this in the official record. We will have questions at the end of the hearing, and if you will stay around, I am sure there are a number of questions that both of us would like to address to you. And I want to thank you again for coming this morning. Good to see you.

Our next witness is the president of the South Dakota Association of Conservation Districts. The name is Vern Seger. Vern, it's good to have you here this morning. If you want to sit down, we will take your statement at this time. The text of your statement will be in the record, and by all means if you feel more comfortable just talking directly to the committee, do so.

STATEMENT OF VERNON SEGER, PRESIDENT, SOUTH DAKOTA ASSOCIATION OF CONSERVATION DISTRICTS, OELRICHS, S. DAK.

Mr. SEGER. Mr. Chairman, members of the committee, I am Vernon Seger of Fall River County, S. Dak. I have been in active leadership of Fall River Conservation District for 16 years, and at the State level for the past 13 years. I am a lifetime farmer and rancher.

I made an application for a Great Plains conservation plan in 1960. My first contract was accepted and put in force in 1961, which was an exceptionally dry year in Fall River County. We had cattle going as far as 3 miles for water. You can imagine what the grass near this stock pond looked like.

That fall our ranch was able to construct four large stockwater ponds thanks to GPCP cost-sharing. Had it not been available, I could not have installed those watering facilities. In the spring of 1962 the stock ponds were filled to above average rainfall. Our average rainfall is 14 inches, if we are lucky. These ponds are still in use as of now.

Under this same program we were able to begin seeding marginal cropland back to native grass. As time went on we were caught in the cost price squeeze and our only chance to stay in business was to expand. As we increased our ranch land, we were very fortunate to be able to secure GPCP contracts on our newly purchased land. It was in a very rundown condition and very poorly watered. As of now we have seeded 1,200 acres of marginal cropland to native grass, have installed water spreading systems, 19 miles of livestock water pipeline, cross fencing, deferred grazing, and have practiced good range management, as agreed to in the contracts.

Today we have a family operation that is working very well. If it had not been for the Great Plains conservation program, I don't think we could have obtained this success. We still had to put a good share of our money in this program.

During my years at the State conservation level, I have witnessed the above-mentioned experience time and time again by our South Dakota farmers and ranchers.

I am very much in favor of the Great Plains conservation program amendment as submitted by Hon. Thomas Daschle, Representative from South Dakota, as stated in the Congressional Record of Tuesday, June 5, 1979.

We have put a good deal of conservation on the land in South Dakota with the agricultural conservation program in past years. It serves a very good purpose, but it has too many limitations and does not constitute a well-rounded and complete conservation program.

At this point I would like to inform you members of the committee that conservation is not a one-time thing, it is an ongoing procedure.

Conservation practices deteriorate and have to be repaired or replaced.

We are working with SCS and other agencies on the Resource Conservation Act of 1977. We do not know what it will do for us. There is one great advantage of GPCP, we know that it works. When we have something that is as successful as this program is, it would be foolhardy to abandon it.

I wish to commend the SCS people for the wonderful job they have done with the technical and the administration work of the Great Plains conservation program since its inception.

We who live and produce in this Great Plains area know that it is a very fragile area and very susceptible to erosion by wind and water. We also know that the people of this great Nation are very dependent on the food we produce for them. Therefore, I think it no more than right that they should help us to finance the program that can prevent us from another error of the "Dirty Thirties" which I remember all too well.

There is some thought of making conservation compulsory. This I am against 100 percent. This sort of thing would be the beginning of the end. I do think there has to be some incentive to bring operators into conservation.

It took some time for the GPCP to be in demand in South Dakota upon its beginning. Now we have so many applications that we cannot begin to honor them.

I thank you for the time allotted to me and will try to answer any questions you may have. Thank you.

Mr. DASCHLE. Thank you very much, Vern. It's good to have you here. And if you will stick around for a little while, we will probably be asking you some questions. Thank you.

The next witness is the president of the South Dakota Farm Bureau, from Kimball, S. Dak., Dick Ekstrum. Is Dick here? He may be coming in a little bit later. If he isn't here, we will bring on Verner Magnusson who is a representative of the National Association of Farmer Elected Committeemen: Garv Martens of Mora, Minn. He is the president of the Minnesota Association of Farmer Elected ASCS Committeemen. And John Locken of Bath, Brown County ASCS Community Committeeman. Are those three here now? Do you want to come up, please. We are delighted to have you, and if you want to proceed in whatever way you decided to, go ahead, we will take your testimony at this time.

STATEMENT OF GARY D. MARTENS, PRESIDENT, MINNESOTA ASSOCIATION OF FARMER-ELECTED ASCS COMMITTEEMEN, ACCOMPANIED BY VERNER MAGNUSSON, PRESIDENT, NEBRASKA ASSOCIATION OF FARMER ELECTED COMMITTEEMEN, AND JOHN LOCKEN, BROWN COUNTY ASCS COMMUNITY COMMITTEEMAN

Mr. MARTENS. Thank you. Chairman Jones and Congressman Daschle. My name is Gary Martens and I am the president of the Minnesota Association of Farmer Elected Committeemen and the Mideast Area of the National Association of Farmer Elected Committeemen. I was elected to this position by ASCS Committeemen from

the States of Minnesota, Wisconsin, Michigan, Iowa, Illinois, Ohio, Indiana, and Missouri. I am a dairy farmer.

I want to thank you for taking time from your busy schedule to receive input from farmers as to the problems we have today in agriculture. I will be speaking on energy, farm programs, crop insurance, conservation, commodity credit, and a problem we have in the area of Minnesota that I represent.

We, as a Nation, cannot continue to rely on foreign crude for energy. We import over 50 percent of the energy consumed in the United States. We farmers can help reduce this imported energy by on-farm stills that produce alcohol. We now have the technology for on-farm stills to use up some of our waste residue. The feed grain that we farmers feed our animals could be used to produce alcohol, and when the alcohol is removed from the grain, it could be used as livestock feed. From a bushel of corn there is 2½ gallons of alcohol produced. The corn from the still has all the protein and energy after it is distilled. Farmers could install stills on larger farms. The problem is regulations and financing. The financing could be done through the ASCS offices with the same type of loan as for the storage facility loan program which is not at 10½ percent.

Crop insurance.—Congressman Jones, we need a good crop insurance program from planting to harvest. The money needed to prepare the soils for planting, fertilizer and chemicals are rising every year. Some lending institutions may not in the future extend credit to young and marginal farmers who do not have sufficient equity in their farms. With good crop insurance, lending agencies would be assured of the payment in the fall if we don't have a crop through no fault of the farmer. This problem has to be on a field-by-field basis and not production from the whole combined farm to determine eligibility for loss. The rate of loss should not be over 25 percent to qualify for payment. Insurance could be on a 50-, 60-, or 75-percent protection with the Government picking up a percentage of the premium. This program would be sold by private insurance companies if they would include total protection for all risk crop insurance. I am more concerned about the quality of protection than the principal cost. The farmer will pay more for better protection.

Farm programs.—The farm programs we have today from the 1977 Food and Agricultural Act, are much better than the acreage allotment that we had previously. Any farm program that we want farmers to participate in must be simple. For set aside payments a farmer should be able to sit down at home and figure out what he will receive for not planting a crop on his diverted acreage. Any complicated formula needed for farm programs will turn off farmers and we will not get them to participate in the program.

Commodity credit.—We now have an ASCS program whereby we can use high moisture shelled corn and receive a loan from the Commodity Credit Corporation, CCC. This is a step in the right direction. By using high moisture feeds we can cut down on the amount of energy consumed for drying, thereby cutting back on the dependency on crude and allowing these fuels to be used in other places. This program should, however, be expanded to include high moisture ground ear corn to be stored in silos. The reason I say this is because in my

area of the State, dairy, beef, and hog farmers could use high moisture ground ear corn to feed their livestock, thus eliminating the drying bins or dryers. The need for combines and pickers could be eliminated and less machinery would be needed. By including high moisture ground ear corn to the list of eligible commodities we could obtain a loan in the fall to pay off our fertilizer and herbicide bills and repay the loan to CCC as they are fed. Again, the cost to the Government is very small and it would help in savings on energy.

The last area I will be speaking on is conservation. All of us are concerned about soil erosion and water quality. We farmers can and have been doing much in the last few years to help water quality and erosion through our 3,000 locally controlled ASCS services. ACP, agricultural conservation program, which has been in existence since 1936, has done more than any other agency to protect the soil and water. In 1936 ACP was authorized funding at \$500 million. After the Second World War every President until President Carter has wanted to eliminate ACP. In the last decade we have seen many Federal and State agencies dealing with water quality and soil erosion funded. My question to you, Congressman, how many of these agencies have implemented any conservation on the land through cost sharing with farmers to correct any problems? What we have had is conservation on paper and not on the land. We in ASCS, through ACP, can put more conservation on the land for the least amount of tax dollar than any other agency because we have offices now in 3,000 counties or parishes and the local elected people administer these programs. Who knows better what the problems are than the people living in an area and what it will take to correct the problem. One advantage we have in ASCS is we are limited to three 3-year terms that a committeeman can serve on the local ASCS committee; thus assuring new ideas to correct problems. And we are elected by only landowners, thus eliminating the possibility of special interest groups controlling funds for their own use and not for the good of all people.

A problem we now have in northeastern Minnesota is in the new redirection of ACP. With the new redirection in ACP, we in ASCS cannot cost share with farmers a saving practice because the GAO report stated seeding and liming practices are production practices and are not eligible for cost sharing. The majority of lending agencies in our part of the State do not loan money to farmers for limestone. Limestone costs from \$13 to \$20 per ton. Unlike fertilizer, the farmer cannot have benefits from limestone for 2 to 3 years after the application on soils needing over three tons of limestone. The farmers in Kanabec County agreed that it is a production practice, but it is the best way to keep the soil in place successfully. Farmers in northeastern Minnesota can't grow row crops successfully and be competitive with row crops grown further south. In Minnesota to be eligible for cost sharing under the SL-1, the land must come from a row crop. We have a majority of the farmers that are in dairy and beef production and they use the majority of crops produced on their farms to feed livestock. Therefore they do not contribute to the overproduction of feed grains. Our development committee in Kanabec County, which is made up of the ASCS Committee, the Soil and Water Board,

FmHA, Forestry, Soil Conservation Service, the County Community Committeemen, the County Commissioners, the Extension Agent, the Farm Bureau, and the Farmers Union as well as lending agencies agree we must adopt another way to get needed limestone on our soils to reduce runoff, improve soil fertilities so farmers can raise alfalfa which in itself will produce up to a hundred units of nitrogen per acre. The development group stated we needed a program for all farmers in all counties and not just the low income people.

Using the development committee recommendations, we are submitting the following: When a soil test calls for 5 tons of limestone to neutralize a soil to a pH of 7, the farmer submits to the ASCS Committee a final report. The committee reviews the report and may grant the farmer a loan for the limestone. The farmer pays for the limestone at the rate of 1 ton per acre per year until the loan is paid in full. The interest rate would be the same as the farmstead facility loan program, which is presently at 10½ percent. The only cost to the Federal Government with this type of program would be some administration cost and the subsidized rate of interest over what the money costs the Government. I have tried in the past to have this program adopted, but we were told to go to FmHA for funds. They have money for such projects. My question to you is how many farmers qualify for this type of program through FmHA? How long would it take to receive the go-ahead from FmHA? We in ASCS meet at least 2 to 4 times a month and could review and grant the farmer the loan within not more than 2 weeks after it was submitted. In the event the farmer loses his place through bad management or otherwise, the next farmer would have soil that will produce a profitable crop. With a program such as this one, where can we, as a Nation, get more conservation on the land with very little cost to the Federal Government than through this loan program on limestone.

Congressman Jones, I hope your committee will take a good look at this practice. We are all concerned about water quality, pollution and energy. Give us a chance to prove this program will work by adopting a special project for northeastern Minnesota. Thank you, sir.

STATEMENT OF VERNER MAGNUSSON, PRESIDENT, NEBRASKA FARMER-ELECTED COMMITTEEMEN

Mr. MAGNUSSON. Mr. Chairman, Congressman Daschle and committee, I am Vern Magnusson, Nebraska president of the Association of Farmer Elected Committeemen. I have a few statements concerning the agricultural conservation program.

I am here today representing the Nebraska Association of Farmer Elected Committeemen to provide some statements concerning the ACP. My experience with this program has also been as a former county ASC committeeman and as a producer who uses the land for the production of agricultural commodities.

Some of the main points that I would like to cover are as follows: First, is ACP doing a good job in my county and the State of Nebraska? Nebraska has traditionally administered a program emphasizing practices that provide direct and immediate soil and water conservation benefits and which improve the environment. Nebraska was one of

the Great Plains States along with other States represented here whose land suffered during the 1930 drought years. Those of us who are native Nebraskans who tilled the soil or whose fathers tilled the soil can testify to the fact that, because of this program and the support of other USD agencies, Nebraska's land and water resources have greatly improved. Our county committees identify problem areas and improve those practices that will best solve these problems. These practices are generally terraces, water control structures, grass waterways, seedings and windbreaks. Regardless of some criticism, county committees in Nebraska with the leadership and guidance of the State committee, have utilized ACP funding for those practices that I have mentioned that provide long-time conservation benefits and that do not directly increase production.

You may or may not know that Nebraska is known as the State with the most abundant underground water supply of any of the 50 States. To us in Nebraska, this resource needs to be conserved and utilized efficiently for the future production of crops. Approximately 7 million of Nebraska's 20 million acres of cropland are now irrigated, with the majority being irrigated from wells. This irrigation development puts Nebraska as 1 of the 3 States having the most irrigated land. It is, therefore, imperative for the good of the Nation and future generations that ACP cost-sharing be provided for practices that will provide the most efficient use of this valuable underground water resource. To conclude on this point, I would therefore say that, yes, the ACP through the county and community system is doing an excellent job in my county and in my State.

Secondly, should we have more money for ACP? My response to that is a positive yes. As a farmer and former county committeeman, and speaking for other farmers in Nebraska, we are willing to invest some of our own financial resources in the conservation effort if there is more money available for the program. I have checked with our State ASCS office and they have advised me that requests over a 12-month period will average \$10 to 15 million in Nebraska. Yet Nebraska's allocation has been dropping from a high of about \$61½ million to a current \$41½ million. We farmers are also aware that many counties in Nebraska currently have requests for cost-sharing on hand for as much as \$200,000 that cannot be approved because of lack of funds. The point I want to make is that farmers are willing to invest approximately 25 percent or more of the \$10 million worth of requests if the funding were available. County committees have reported to me that during 1979 they have received more complaints from farmers who were willing to do conservation work but are being turned down because funds were not available.

Three, should county committees have more say about which conservation practices should be available in the county? During the last 2 or 3 years county committees have had an opportunity to determine which conservation practices to have in their county program. I wish to point out again, however, that in Nebraska, county committees have used sound judgment in determining which practices to include. Our county, which is Burt County, located in northeast Nebraska, has always been aware that sufficient funds are not available to include some practices that would provide some conservation benefit. We are aware, however, like most county committees, that the funds

should be utilized for those practices that will do the most good for us and the taxpayers over a long period of time.

Four, would you like to see a trust fund established to provide funds for basic soil and water conservation practices? It is our understanding that a trust fund that has been proposed by some groups would make money available to perhaps State or local governments or other entities in the form of a grant and allow farmers and ranchers to borrow from this trust fund that would be a revolving type fund. I do not believe that this type of approach would be totally satisfactory. I say this because everyone should be aware that the total amount appropriated by Congress for ACP that has been 190 million the last 2 years, goes directly to the farmer to apply conservation on his land except 5 percent to the Soil Conservation Service for technical assistance. The cost of administering this program by ASCS is minimal. To take another approach by establishing a trust fund or similar type program would then establish another line of administrative procedures that could be costly to the taxpayer. My interest is seeing that every dollar appropriated by Congress for conservation be utilized for that purpose and not for administration and planning.

In conclusion, it is my opinion that this Nation cannot expect to ever get the total conservation job done. The Nation and the farmers who produce the food must exercise patience and realize that the total conservation job cannot be accomplished in one or two decades. Production of food on farm and ranches changes based on new techniques, and this causes new conservation problems to arise. We must all realize that just because new terraces have been built or a new dam has been built, these practices do not last forever, even with the best maintenance.

I will say, however, that if our society, through their delegated representatives, will realize that farmers and ranchers are willing to invest part of the cost in the conservation effort and match their funds with public funds, we can continue to make great strides in reducing erosion, conserving water and improving the environment. The ACP has worked through the county committee system and will continue to work in accomplishing our goals if the public will see fit to share in conserving our soil and water for generations yet to come.

I thank you for the opportunity to present these statements. Thank you.

Mr. DASCHLE. Thank you, Verner. Our next one is Jon Locken. Jon, happy to have you. Go ahead and present your statement.

STATEMENT OF JON LOCKEN, BROWN COUNTY COMMITTEEMAN, BATH, S. DAK.

Mr. LOCKEN. Chairman Jones, and Congressman Daschle, my name is Jon Locken. I am a full-time farmer here in Aberdeen, S. Dak. In the past year I have been elected to the Community Committee for Brown County. I would like to express my appreciation for your coming here today and giving me an opportunity to speak.

First, I would like to say that I am fortunate to live in an area that has been blessed with sound conservation practices. The effect of this has been increased productivity, reduced soil erosion and increased

wildlife population and far-reaching off farm benefits for all of society. But I would like to point out that the majority of the practices were begun before I was born and I see the extreme need to continue the work.

Mr. Chairman, I strongly believe that this work should continue to be carried out with the ASCS Committee working with and for the farmers. The men on the ASCS Committee have spent their lives living on the farm and ranch lands in the different areas of our diverse country. When you stop to think, we are really newcomers to this land. Whereas a 60-year-old man has experienced well over 60 percent of the changes in practices on our land, and in this we have a vast amount of experience we can continue to tap in looking toward the future for positive long-term conservation practices that our farmers will use with benefits for all of society. We all realize that there have been and will continue to be changes in the practices, policies, and staff of the Soil Conservation Service. Therefore I feel a need for the farmers to have a continuous grassroots medium to work through the conservation of our land and water locally.

As an individual, I see that the farmers' elected ASCS committee system is the fairest and lowest cost way to administering of ACP programs. Each year the ACP program is evaluated through the committee system and the feasibility of each practice is reviewed by the people who know the land and its needs.

In general, I believe that a farmer is still only a temporary tenant on the land. Today's farmer has really got his work cut out for him in just trying to make a living while maintaining the fertility and paying the taxes on the land. I know that there are farmers that, for example, would give you their shelter belt land to keep for the rest of your life if you would just maintain the trees, control the weeds and pay the taxes. The easiest way out for the farmers would be to leave conservation up to the coming generations, but we can't afford to do that.

Agriculture is still the backbone of our economy. I think that all of us here today realize that a shortage of food would make the energy crisis look like a Sunday School picnic. Therefore I believe that conservation is an investment that all society should make for our next generations. Farmers have shown their desire to carry out sound conservation practices. The new life needed in ACP should come in the form of adequate funding. The costs of those programs may seem high, but consider for a moment the cost of a failing agricultural economy while our Nation's economy is as troubled as it is today. Thank you.

Mr. DASCHLE. Thank you very much, Jon.

Mr. JONES of Tennessee. Let me say, Tom, to the panel, that this is very, very good information. You are going to get some questions.

Mr. DASCHLE. Our final panel this morning is going to consist, Mr. Chairman, of four people. And I would like to have them come up if they would at this time.

The first is Mr. Fritz Rosebrock, Frederick, S. Dak. Fritz is a farmer who has been enrolled in the Great Plains Conservation program. Dale Engelhart of Barnard, S. Dak. is also a farmer who has participated in the program to some extent. Carvin Guy has been involved with the National Association of Conservation Districts, and

if Carvin is here, I would like to have him come up. And then finally, Mr. Leonard Schultz is a former member of the State Conservation Commission. He was the chairman of the Great Plains Commission last year, National Association Commission last year. He is active in using the program and farms in southwestern South Dakota. So Leonard, are you here now?

Mr. SCHULTZ. Yes.

Mr. DASCHLE. Can you come on up? Gentlemen, we are delighted to have you this morning. I think of all the witnesses, I was interested particularly in yours because you are the ones that work on it on a practical day-to-day basis. You are the ones that have made this program a success. I think it's rewarding for us to be able to talk to you personally. These are the kinds of things we don't often have an opportunity to do in Washington. So welcome. And by all means proceed in any way that you see fit.

STATEMENTS OF CARVIN H. GUY, VEBLEN, S. DAK.; FRITZ H. ROSEBROCK, FREDERICK, S. DAK.; DALE S. ENGELHART, BARNARD, S. DAK., AND LEONARD W. SCHULTZ, BATESLAND, S. DAK.

Mr. GUY. Well, I guess, Tom, I'm going to start this because Leonard here has informed me he is going to finish it. I think we will operate just like the Government. Somebody has got to start it and somebody has got to finish it.

I think it's an honor that I was asked and I am sure happy to be a part of this committee. And, Mr. Jones, we will try to inform you of what is happening on a local level.

And I think that I would like to start, Tom. I have pages written up, but I think of all the testimony that has been here, I would like to just talk in some areas that probably haven't been covered up to now. My name is Carvin Guy. I am a rancher in northeastern South Dakota. I live in the Lakatou Hills which run all the way clear across the northeastern part of our State. And I constantly see the land erosion in the east and the west and the good lands of agricultural areas. And I definitely know with good conservation or better practices on it, why, it would eliminate almost all this erosion because in our area we don't have a large amount of rainfall. It isn't like Iowa where you have 40 or 50. We have a 15- to 18-inch rainfall. And I am definitely pleased that we could have conservation practices where we could hold the water where it lands on the land. And I think this range of hills is probably one place in the Nation that we have this matter of about 50 lakes that run through this Lakatou Hills and there is no other big waters that run into these lakes at all. And there has been a lot of money spent looking into what could be done. But I have been on the board as long as most have or after it got started, and very little is done on the land.

In fact, we got so mad over northeastern South Dakota that we only got one man working between Marshall County and Roberts. He spent 100 miles driving on the highway today, which means he tends to do very little work at all because the highway is maintained by the State government, not by the conservation. So we are wasting his time as well as people that we work with, and I think I have been

on most all of the local boards within the county, a lot of them within the State, and I do know that the conservation people nationwide are the most dedicated people I have worked with, and it is certainly a privilege.

I think the obvious aspect in the area I live in, we have a lot of land that has been bought up by the State and the Federal wetlands. And I think it's a detriment, especially the Federal wetlands, that they buy this land and they don't use any—I won't say any, but none at all that maintain this because there isn't enough financing to go around. But it seems to me like they have the money to buy the land, but not to maintain it. And I would hate to be a rancher or farmer operating like that; that had money enough to buy the land, but not enough to manage the land. And I think that is what conservation work really is, that we have to be able to manage the land.

And I would like to believe that we are just stewards of the land. It doesn't make much difference whether we are paying payments for the rest of our life or we actually own it or we are a good worker of the land. We are just stewards of the land, and I think that is the reason we have to have aid on all long management programs.

No. 1 in our area is trees which, like has been mentioned, we can plant them, but we don't get very much use out of them. So that is the reason we got to have help on these practices. Another one is the grasses. I just met last week with a county committee on the programs for next year to get long management for grasses. We have a small payment to get the grass started, but then we don't have any to maintain these grasses. So with the higher cost of operations and the higher cost of living which the family operator has to live on, he isn't able to manage these practices along. He has to have help. And I think this has been a good program to conservation where we aid the farmers into starting this practice. But we not only have to start him, we have got to follow through with it. I think our practices have been just like a lot of them, we have got good intentions to get them started but we don't follow through with them. I think it's just about as simple as all of us today, if we go⁴ here, that is halfway. But the other half is to get home. And if we don't get home, we ain't got any farm to manage, and that is about the way that these programs are. They have been getting less and less. I see every year when I meet with the county committee on the finances, it is less.

We had a lot of practice within our country, and I just got them started with work today. We got a contractor in where the cost of terracing and conservation practices have doubled and tripled, and here you look at the docket for the money available for conservation practices, it's been less each year. It's pretty hard for anybody to manage with a program like that. And I think it would be a real disaster if the conservation policies or the Great Plains program was cut back because look at the years that we have managed it. And look at the automation, we have yet to be able to tear it up. I live on a range of hills and they couldn't even make it with horses, and now they have got four-wheel drives that will drive straight up and straight down which the land will lose within just a few years, and we will never live long enough to be able to manage it and get it built back.

And I could go on, I am sure, talking off the cuff on this conservation program for the rest of the day. But I don't think talk from anyone has ever done anything. And I think that is what is happening now. I know in our lake area, in the pollution deal, the money that has been spent just in looking out, what could have been done if it had been practices on the land, it would have been a lot of help to us. We have it right in the lakes right now. We've had many meetings this summer and I have worked with them on it, and they could be eliminated.

It's just good farm management. The farmer living by it, he has got a good hard time to make a living off it without having any expensive long-range management, and I think this has been my testimony. I want to thank you for being able to listen to us, and it's certainly a privilege for us.

STATEMENT OF FRITZ H. ROSEBROCK, FREDERICK, S. DAK.

Mr. ROSEBROCK. Chairman Jones and Congressman Daschle. I am Fritz Rosebrock from Frederick. I live in the north part of Brown County. I entered into a Great Plains Conservation program contract in 1978. I am fairly new at this, but the original contract was for 2,210 acres. And the cost-share practices scheduled include 5 acres of windbreak, reestablishing 126 acres of grassland and installing 200 rods of fencing for grazing management and to protect trees. In addition to the cost-share payments, the Soil Conservation Service technical assistance is provided for planning of crop rotation and planning of croplands as well as proper management of tame grasses and native grasses. Under the Great Plains Conservation program I have a commitment for technical assistance from the Soil Conservation Service for the period of my contract which could be extended up to 10 years, if necessary.

My contract was initially prepared for 5 years and it will run through December 31 of 1982. It commits approximately \$3,000 in cost-share money. In my case, as with many others in Brown and other counties, my farming operation changed within the last year. Recently I added approximately 1,280 acres to my unit when my sons decided to farm with me. This has somewhat changed my needs for conservation practices on my original unit as well as increasing my needs for conservation work on the land I added. This type of change is common in farming and ranching today. The Great Plains Conservation program has the flexibility to add this additional land to my contract as well as other types of flexibility which I am sure happens to other farmers, too.

The Great Plains Conservation program provides cost-share money only for long-term practices. There are approximately 30 such practices available in the program today. I have attached on the back of this testimony here a list of the cost-share practices available. The available practices are broad enough to cover nearly any type of conservation problem I can visualize in my area or throughout South Dakota. Since average costs for the practices are updated annually, it provides a realistic cost-share payment when the practices is carried out. We are all aware that costs are increasing rapidly and land-

owners need a commitment for cost share at a rate that is kept current if we are going to plan on a long-range basis which we must do in farming.

On my farm I have four different classes of soils which makes it difficult and important to have technical assistance. This is typical of most of the farms in South Dakota.

In Brown County the Great Plains Conservation program was started in the early seventies and to date, I guess, there have been 26 contracts covering 35,000 acres and providing \$100,000 of cost-sharing assistance. With agriculture changing as it is today, I anticipate an increasing need for the Great Plains Conservation program, Thank you.

[The attachment referred to follows:]

Great Plain conservation program—Cost-share practices; Brown County, S. Dak.

Practice :	Cost-Share Percent
Establishment of permanent vegetative cover.....	75
Initial establishment of field or wind stripcropping.....	75
Initial establishment of contour stripcropping.....	75
Reestablishing grasslands.....	75
Establishment of trees or shrubs.....	75
Establishment of permanent waterways.....	75
Terraces	75
Diversions	75
Grassland mechanical treatment.....	50
Erosion control, detention or sediment retention dams.....	75
Grade stabilization structures.....	75
Diversion dams and spreader ditches or dikes to divert and spread water	70
Reorganizing irrigation systems.....	50
Irrigation land leveling.....	50
Construction, enlarging, or sealing dams, or ponds for irrigation water.....	50
Lining irrigation ditches, canals or laterals.....	50
Wells	50
Developing springs and seeps.....	50
Constructing, enlarging or sealing dams, pits or ponds.....	50
Pipelines	75
Controlling competitive shrubs.....	50
Fences	50
Critical area treatment.....	75
Irrigation tailwater recovery system.....	50
Disposal lagoons.....	75
Recreation land grading and shaping.....	75
Water storage facilities.....	50
Shallow water area.....	70
Holding ponds and tanks.....	75
Initial establishment of tall wheatgrass barriers.....	75

Mr. DASCHLE. Thank you very much, Fritz. Dale, you are the next one coming up.

STATEMENT OF DALE S. ENGELHART, BARNARD, S. DAK.

Mr. ENGELHART. Congressmen Jones and Daschle, my name is Dale Engelhart, and my family and I run a 5,550 acre grain and cow-calf operation near Barnard, S. Dak. I have been involved in farming and ranching for 22 years. I first became involved in the Great Plains conservation program 2 years ago when I entered a cost-sharing agree-

ment with the program for pasture seeding of 40 acres. Presently I have future cost-sharing agreements with GPCP for another 300 to 400 acres of pasture seeding.

This is a program that has worked in the past and, given the opportunity, will continue to work in the future. Gentlemen, the future is what this program should be all about. I have three sons, all of whom have indicated a real interest in taking up farming. But as all of you know, the young farmer just getting into the business is faced with an almost staggering capital investment, one that he needs all the help he can get. The Great Plains conservation program is one of the best ways available to a young farmer, just starting in the business, to improve his land and give him a better chance to succeed in a business being increasingly dominated by big agribusinesses and corporate farming.

But there is another reason this program should continue, and that is the benefit it brings to the land itself. Just recently I purchased some adjoining land, about 1,100 acres, and one of the principal reasons I bought it was the shelter belt arrangement. Gentlemen, those trees were put in place by the very program that we are talking about today. These trees provide a piece of land that is ideal for my cattle operation and do a service in preserving the economic value of the land.

Before I end my prepared remarks, there is just one thing I would like to add. Farmers and ranchers in this area need programs like the Great Plains conservation program to help us preserve the land. But since we are the ones who work the land and know its problems best, we feel that we are also the ones who know best how that land should be used. In all your deliberations on agricultural matters, I hope you gentlemen keep that in mind, especially when you begin talking about land use management plans. Please help us keep the land in good shape for the children of the future. Please also trust us to use the land wisely. Thank you.

Mr. DASCHLE. Thank you, Dale. Leonard, do you want to summarize what the three previous gentlemen have said?

STATEMENT OF LEONARD SCHULTZ, BATESLAND, S. DAK.

Mr. SCHULTZ. If I could summarize, I guess I would have to say my four-wheeler won't go up and down those hills. But I would like to get the son-of-a-gun on the contour, you know.

I also am a farmer and rancher and I had a 10-year program on my place. I guess you have to practice what you preach, in my opinion. I certainly appreciate you fellows coming out here, and especially Congressman Jones. I have served on the NSCD National Committee. I served under John Wilder as a director on the association for some time. He is a very good friend of mine. And one of the things he kept telling me was this program would work very well in Tennessee. And I agreed with him. It would. I saw some places in Tennessee that kind of needed it.

Tom, we are glad to see you came out. Glad to see you out here in South Dakota and have a chance to tell you what we are doing.

I have completed a 10-year program and I have some 35 miles of terraces on the place. I have about 30 miles of trees that are divided up among wildlife and one row plantings and what-have-you. I think they

are tremendous. Several miles of waterways. I have put several hundred acres back to grass and I am the hired man out there, so I know what is going on. When I first started this program I had ditches I couldn't get across. Today I pride myself that I can drive about any place I want to on it. Even that four-wheeler won't get stuck. It's no doubt a tremendous program.

I am a supervisor in my district and I feel that I am a county official in the county that I live in. I am elected by all the people. I feel that this is a concern of all the people. And I think we are talking in a way too short a time. We should be looking ahead 100, 200 years, because I am sure there are going to be people here that are going to have to eat. Food and fiber are certainly of tremendous importance.

I can't help but wonder about the hundreds of millions of dollars we pay to give away a canal, billions of dollars we spend in Egypt and Israel, what-have-you. Maybe it's for a good purpose. But I just wonder where our priorities are; why we can't have even \$250 million a year to maintain our food and fiber producing resources in comparison to some of the other things we can do. Where is our priorities? I wonder about it. I wanted to tell you fellows how I feel about it, too.

I think what makes Great Plains a good program is the fact that we don't get paid for things we should do, mulching, planting of alfalfa, legume, whatever we do. There are some practices that we used to call permanent. Very wrongly we did that. There is no such thing as a permanent practice. We have got ourselves into trouble on that score because they must be kept up. They must be maintained, especially in the field of terraces. We find many that were put in with the best of operators. They do deteriorate and they need to be rechanneled. I think that is something that we need to keep in mind when we are looking and planning ahead. I think we should remember it's food and fiber that we are talking about. It's something that we all must have.

Thank you, fellows, for coming out. I appreciate the opportunity.

Mr. DASCHLE. Thank you very much. We are delighted to have you all, and if you will stay around we are going to take a couple more witnesses and then we will probably have some questions for you.

Mr. GUY. I would just like to sum this up a little bit, Mr. Jones. I have been on the board of education for some 25 years and I think the money spent for conservation isn't actually spent at all. It's the best investment and it's well reached its return. I know education is well returned, but the money spent on the land, it will be there forever and ever. And I think it will be an investment that everyone in this Nation or in the world will be happier with the practice they have done.

Mr. DASCHLE. Thank you. Our next witness was one that we called earlier. Dick Ekstrum, the president of the South Dakota Farm Bureau.

Dick, we are delighted to have you.

STATEMENT OF RICHARD EKSTRUM, PRESIDENT, SOUTH DAKOTA FARM BUREAU FEDERATION, HURON, S. DAK.

Mr. EKSTRUM. I do appreciate the opportunity to present our views on this very important matter, and also I want to thank you and Representative Jones for coming out here and taking your time for

this very important matter. I might indicate I am actively involved in a farming operation in south central South Dakota in Brule County. I drove up from that farm this morning. And I saw a lot of wind and dust blowing today. It's pretty windy out there, so I think that probably extenuated the need a little bit for this program. I have prepared a statement here which I would like to read. And, of course, I am available for questions. We do, of course, appreciate the opportunity to comment on the Great Plains program and also the Farm Credit System.

Agricultural land is a valuable and irreplaceable natural resource. Its conservation must receive the highest priority. Continuing losses of agricultural land to other uses requires that wise land management on the portion remaining in production be continued and improved.

We believe the primary responsibility of wise land management rests with those who own or operate the land. Local units of government assisted by State and Federal programs can aid in the discharge of this responsibility.

The Great Plains conservation program with Federal cost-sharing funds is a program that we feel needs to be continued. Requiring farmers and ranchers to pay a portion of the cost is a concept that we feel creates a healthy and productive atmosphere.

Continued input at the local level is another practice that we commend. This concept needs to be used and practiced not only in conservation programs, but in many other areas of society as well.

I would briefly like to also address a concern we have in some conservation proposals for the future. I am referring to the proposal by Representative Jeffords of Vermont, which would tie price support programs to conservation practices. Farm Bureau members have spoken very clearly in their policy adoption on that issue. And I quote:

We are opposed to any attempt to require farmers or ranchers to participate in conservation programs as a condition of eligibility for federally funded agricultural economic assistance programs.

Continued cooperation and effort from both the private and public sectors toward improved conservation practices will help U.S. agriculture to remain the breadbasket of the world.

That concludes my comments that I have on conservation, and I might also indicate that in my own farming operation we have participated in this program and we are well aware of its benefits.

And I also now have a segment on farm credit.

The Cooperative Farm Credit System provides a tremendous amount of financing to farmers and ranchers in South Dakota. I would like to address several concerns we have with proposed amendments to the Farm Credit Act.

The Farm Credit System should not lose sight of its primary purpose, to provide credit. Related services should be undertaken only for the purpose of benefiting borrowers, and not for the purpose of building an empire farm service business company. The private market, in our view, is providing adequate insurance services to the farm market, and we oppose further encroachment by the Farm Credit System into this area.

The proposal to authorize all Farm Credit System institutions to enter into general loss-sharing agreements with other Farm Credit

System institutions needs to be carefully analyzed. These loss-sharing agreements could increase the possibility that individual institutions might make risky loans. We recognize the benefit of sharing risks over a broader spectrum, but would point out that this could lower the costs of money to some segments of the Farm Credit System and raise the cost of money to others.

The percentage of agricultural producers used to determine eligibility in borrowing from the Bank for Cooperatives has been decreased by amendments over the years. At present, consideration is being given to lower the percentage even further. With the intention of providing services to agricultural producers, we feel lowering the percentage requirement to 60 percent will cause continued emphasis to be placed on service to farm customers and also allow co-ops in more densely populated areas to continue operation.

Authorizing the Bank for Cooperatives to be involved in export-import financing is a very far-reaching proposal. International banking is a complicated and risky business. On the surface it appears to be a long way from the original intent and purpose of the Farm Credit System. We urge extreme caution and detailed study before this proposal is adopted.

In conclusion, credit needs for agriculture are changing and growing. Farmers and ranchers need a variety of credit facilities to meet their expanding operational needs. We also urge closer coordination and cooperation between Production Credit Associations and Federal Land Bank Associations wherever practical for maximum service, convenience, and efficiency of operations.

Mr. DASCHLE. Thank you very much. Before you got here the chairman announced that what he would like to do is have everybody present their statements and then at the end of the hearing we would like to ask questions of those that presented their testimony prior to that. So I want to thank you for your testimony, and if you could stick around for a few minutes, we will probably have some questions for you.

Mr. Chairman, in South Dakota, we have what are called conservancy subdistricts that represent a whole range of issues and concerns that affect South Dakota. And one representative of one conservancy subdistrict has been here this morning, and I noticed he was in the audience. Curt Hohn is the director of the Oahe Conservancy Subdistrict. Curt, we would be happy to have your comments at this time.

STATEMENT OF CURT HOHN, DIRECTOR OF THE OAHE CONSERVANCY SUBDISTRICT, ABERDEEN, S. DAK.

Mr. HOHN. Thank you. Congressman Daschle and Chairman Jones. I will only take a few minutes to address the Great Plains program. And I would like to explain, first of all, Mr. Chairman, that I am the manager of the Oahe Conservancy Subdistrict and the Oahe subdistrict is one of six locally organized elected bodies in South Dakota established for local water resource development. We are involved here in this area in a 15½ county subdistrict in north central South Dakota, and we extend basically 80 miles to the west of the Missouri River and some 20 or 30 miles to the east from Aberdeen. So it covers quite a large area.

The Oahe board has closely reviewed water resource needs in the subdistrict over the past few years and has found that the Great Plains program holds a great potential for assisting farmers and ranchers to help themselves and provide a broad benefit to the whole community.

Aside from erosion aspects, one of the most attractive aspects of that program is the potential it provides for improving domestic livestock water, and which enhances a major industry here in South Dakota in making grasslands more useful and productive. Erosion aspects of the program are essential to agricultural communities and counties like those in our subdistrict.

As a local body concerned with all aspects of water resource development, we are especially concerned with water quality. Reduction of erosion not only preserves the land and enhances productivity, but it's essential for preventing turbidity and pollution of our prairie creeks, rivers and streams. We would urge the Congress continue the Great Plains program and possibly expand it to additional counties in the State and expand the amount of funds that are available.

Farmers and ranchers in South Dakota, by nature, are stewards of the land. However, economic pressures place great strain on farming and ranching practices and it becomes more difficult each year for people to exercise conservation practices. The Great Plains program and other incentive programs are necessary, we feel, to encourage farmers and ranchers to practice conservation which is necessary to preserve and nurture the land that we all depend on.

I think it is, as some of the individual landowners testified here earlier today, one of the main aspects, one of the most attractive aspects of this program is the fact that it is a partnership between the Federal Government and the individual landowner. The individual landowner is very much involved in South Dakota. Our people are very independent. They pride themselves in their ability to manage and operate their land. And we think the Great Plains program is one that definitely should be extended. Thank you very much.

Mr. DASCHLE. Thank you. I want to thank all of the witnesses for their excellent testimony this morning. I know it certainly shed a great light on many of the problems that we are facing in terms of the Great Plains conservation program and conservation programs in general as we face them in South Dakota.

And this time I think we would like to begin our questioning. And, Mr. Chairman, I am going to defer to you and allow you to, by all means, pursue your line of questioning.

Mr. JONES of Tennessee. Let me ask all the witnesses who have appeared this morning to come up here to the microphone. Tom and I will engage ourselves in some questions we would like to talk about a little bit.

Let me say before we begin, you gentlemen did a fine job. I enjoyed every bit of the testimony. I might even go a little farther and say I almost agreed with all of it. But it was good testimony. But there are some things I want to ask and some things that we need to clear up between us so we know what sort of legislation to propose. Whatever we propose, we can't always get passed, but we try.

I'm going to ask Mr. Gary Martens a question. You are a dairy farmer?

Mr. MARTENS. Right.

Mr. JONES of Tennessee. That is what I was raised on, a dairy farm. I liked what you said about ASCS and the ACP programs. But I don't understand exactly how we can go about this ag loan provision that you were discussing. I wish you would discuss that.

Mr. MARTENS. Thank you, Mr. Chairman. That has been the problem when I did go to Washington with this, there are no provisions today for an ag loan type of loan. And this is what we are asking for, is some type of a provision similar to the facility loan program.

Mr. JONES of Tennessee. Let me make a proposal to you. Why could we not take allowed ASCS offices. I don't know what we would have to do this, but I have a problem with agricultural land, too. I don't know what you all have to pay for it up here, but it sure costs us a lot of money in my county. Yesterday in Hutchinson County they said \$7.

Mr. MARTENS. We are paying 13 to 20 in my part of the State, and it's small grain. You just cannot get this money back.

Mr. JONES of Tennessee. Why don't we try to work out a deal that would allow the ASCS offices to make a long-term loan through the CCC? I think that is what you suggested.

Like we did with the facility loan and, Tom, like we have talked for the gasohol stills on farms. I had a proposal that I sort of wanted to go that way with the revenue for the alcohol. I don't know whether we could have made it or not. I guess gasohol is really a complicated problem in many respects and none of us know as much about it as we ought to. You have done a lot of work on it, Tom, and deserve a lot of credit for what you have done. But I think that we might be able to come up with something without legislation.

Mr. MARTENS. Can we do that, though?

Mr. JONES of Tennessee. We will try. Does everybody favor that idea? This has not been proposed to me before or our committee, and I think it's a doggone good idea.

Mr. GUY. The statement I would like to make, after being in Washington last year and going through it, why do we expect that the legislature will act because we, as farmers, and agriculture, are such a small percentage of the total population. I don't see how we can get anything passed that would be adequate to the agricultural program. It seems to me like it should be handled in an agricultural committee with people that actually know instead of letting everybody act on it that doesn't know what they're even talking about.

Mr. JONES of Tennessee. You have to be legal or you get in trouble. And CCC has got to be able to lend that money for that particular purpose. Like as identified in legislation, they can make loans to farm people for farm facility loans. And the Secretary may have this authority. Does anybody know?

Mr. CASHDOLLAR. He wouldn't have the authority. It would require legislation.

Mr. MARTENS. This is what I have been told.

Mr. JONES of Tennessee. We might get that in, though, in this new conservation bill that we have or in something. I am not sure. We might persuade the Senate to try to tie it onto some bill over there.

Mr. GUY. It would be real simple to look at it like this, we have 100 people and say we in agriculture are 5 percent of those, I don't think we should let the other 95 tell us what to do, how to do it or what is the best way to do it.

Mr. DASCHLE. I agree with you, too, and I think that part of how it's presented to the other 95, I don't think they always take the attitude that everything we propose is automatically a bad deal. And so it depends on the chairman and on people like myself on the committee to sell it. And if we can sell it, you know, and I think it's a salable idea, and it's even salable enough to make me want to consider putting it on the Great Plains bill, if that is possible. But if we can work out something like that, I think it makes a great deal of sense.

Mr. JONES of Tennessee. I would certainly favor it because it's gotten to where it runs into money. At one time it didn't. It wasn't very bad when it was a dollar and a half a ton in my country, but now it has got to where it's terribly expensive and we have got to do the same thing as you do. This staff, be sure and remind us of this issue because this is a new one that has not been presented to this subcommittee. Maybe we will do something with it.

Mr. MARTENS. This is also badly needed in Wisconsin, Michigan, the Upper Peninsula of both of those States.

Mr. JONES of Tennessee. The problem of programs like that is just exactly what you said, the whole United States doesn't need every bit of this. They are willing to overlook the area to do this.

Mr. MARTENS. I think we can sell this one on conservation on the coasts.

Mr. JONES of Tennessee. That is how you would have to sell it. Any more comments on that question?

Mr. Magnusson. where are you? We talked earlier. I want to tell you, and I guess you know this, I am not sure, but this subcommittee made a recommendation and voted it out for \$250 million for ACP. We even got to the full committee with no problem. But the Budget Committee cut us back to 190, see, and I guess someone mentioned that President Carter is the first man, first President in my lifetime, I guess, or long, long time anyway, that has recommended ACP be continued. And I was real hopeful that we would get \$250 million. It looked pretty good at one time, but Mr. Whitman did what he could do, but it was a big Budget Committee. They cut us back.

Mr. MAGNUSSON. I know you have done a good job. We almost lost it here 4, 5 years ago, and it's been like Smith and Jones and that took care of us, so we still got the program going, and we got more moneys than we did at one time.

Mr. JONES of Tennessee. ASCS's foundation is ACP. No doubt about that.

Mr. Locken, you want our work continued and you are saying it works well and that we need more of it. I agree with you 100 percent. It was a good statement. It's the best panel that I have had in this whole area of hearings. Tom, on conservation. We have been a little bit weak on this phase of it, and I was glad to get it balanced more.

Mr. LOCKEN. If there is one point I would like to make, it's got to be workable and a lot of these farmers out here say they're going to put

in a shelter and, you know, they are going to give their land up for that and it is a problem, you know. We all would like to farm right straight through and all that, and somebody will give up land for it and the inconvenience and then go and try to work with planting trees, and maybe he has got a favorite kind of tree he wants put in. Maybe one tree will work good in one part of the country and one wouldn't work good, and if he gets turned off on that, saying that you have got to plant this kind of tree, he needs somebody to stand behind him like the county committee to say, hey, let's go in and do it the way he wants to because he is making a sacrifice.

Mr. JONES of Tennessee. One of the statements you made that I liked very much is more of it ought to be directed to the local level. We had that discussion yesterday in Hutchinson with one or two of the problems. My experience has been, and I believe this is correct, that it's not the Washington office that makes those directives. That authority is handed down to State offices in most cases. But the State offices just simply don't always put it in the hands of the local offices like they should, and I think that is something that we can take back and work on a little bit more because our Secretary of Agriculture is very much in favor of that type of an operation and I also am in favor of it. I have always said we have got too much government in the Nation's Capital and not enough on the local level. And I appreciated that statement you said. We had that yesterday two or three, times too.

Leonard, I want you to know that I have not ever voted for foreign aid. I just had to get that in, because I have supported programs here at home. I am just like you, I think we ought to take care of our home folks first. I made a few statements I probably shouldn't have made as a public official. Comes from the heart, I believe.

Mr. Ekstrum, the paper that you presented on conservation and credit is a good one. I followed you very closely when you said that we are opposed to any attempt to require farmers or ranchers to participate in conservation programs as a condition of eligibility for federally funded agricultural economic assistance programs. I know what you are talking about. I presume by what you said that you are strictly opposed to the piece of legislation that Jim Jeffords introduced.

Mr. EKSTRUM. What I know about it.

Mr. JONES of Tennessee. Bob, Wayne, can you elaborate on the Jeffords bill?

Mr. CASHDOLLAR. The Jeffords bill would tie the benefits of commodity programs to an agreed upon conservation plan for the farm, and so that you couldn't get the support loans or target price benefits unless you had an operating conservation plan on your farm.

Mr. JONES of Tennessee. Where is the bill?

Mr. CASHDOLLAR. It's in your drawer.

Mr. JONES of Tennessee. All right. I guess we will keep it there.

Mr. MARTENS. Congressmen, if I could comment just 1 minute on this, I have talked with my district conservationist on this and in my county I don't believe that we have 10 percent of the farmers that have a farm plan. It takes anywhere from 3 to 5 days to develop a farm plan and only the district conservationist can do this. And we have 800 farmers. You can figure in your head it isn't feasible. It's a good idea, but it's not feasible.

Mr. JONES of Tennessee. I have got some news for you, too. A lot of those plans drawn up aren't to date.

Mr. MARTENS. That's right; 99 percent of them.

Mr. JONES of Tennessee. I have one at home, and there are a lot of other people that have them, too.

I want to ask you, Mr. Ekstrum, would you favor some sort of an incentive program for conservation practices; in other words, some incentive for a farmer? I've been in Congress 11 years now, and I have almost come to the point that I believe that we are going to have to start standing up on our own feet and doing some of the jobs that we have depended upon the Government to do that cost so much money, and that is where the bureaucracy is. It's not in our legislative part of the Government. It's down in the executive branch. All those old rules and regulations that you have to comply with and a lot of people just refuse to do it and can do it cheaper by not having to comply with them.

That is what these hearings are really all about, that we can develop some plan for incentive conservation work to challenge you as a farmer. If you lose some advantage in some way or another, if you lose so and so, you will receive some additional compensation for your services.

Somebody mentioned the trust fund. We built our highway system with a highway trust fund developed, saved, collected from gasoline tax. Our interstate system was built that way. This might be a way that we could do something for conservation. There might be a lot of other ways we could do it. We have had some proposals in that direction. You gentlemen, some of you know the National Limestone Institute is interested in that. Bob Cook has done a lot of work in that regard. And NSCD has done a great job in that direction. And, of course, the locals and the State organizations have done the same. But I feel like that we are so far behind in conservation practices throughout the country, and one part of the United States almost needs them as bad as another. Somebody has already said the other day, I agree, that the Great Plains program would work in Tennessee. It will work in a lot of places. You are just fortunate to have it. That is all. We are going to see to it that you keep it. Would you favor some sort of an incentive?

Mr. EKSTRUM. A lot would have to do with what that incentive—

Mr. JONES of Tennessee. I think what I am trying to say is it's some sort of a program that farm people could help develop.

Mr. EKSTRUM. Yes. What I was getting at, there was a lot of talk of this type of program that you shove something down a farmer's throat that he doesn't want and we think that is unfair. I don't think any farmer should be forced to do something he doesn't want in that respect. In order to, you know, take advantage of some other program he has to comply in this respect is not right.

Mr. JONES of Tennessee. Before I ask you this next question, is anybody with the Farm Credit System here?

A VOICE. Yes.

Mr. JONES of Tennessee. This farm credit bill that we have that I have introduced on behalf of the Farm Credit Administration, it already has some cosponsors, I agree with you wholeheartedly that the Farm Credit System should not lose sight of its primary purpose,

and that is to provide credit. Now, the insurance part of it, I have already been to task with the Governor and the Federal Board about this pilot program that they have. And where is that pilot program?

Mr. CASHDOLLAR. South Carolina, New Orleans, and Louisville.

Mr. JONES of Tennessee. South Carolina, New Orleans—not Louisville.

Mr. CASHDOLLAR. I thought it was Louisville.

Mr. JONES of Tennessee. I don't think it's Louisville. But anyway, they have got three banks somewhere in this insurance program. I'm getting a lot of flack about that because I don't mind telling you there is going to be a lot of opposition to a continued insurance program, no objection to credit life or what they have had and what the majority of the PCA's and FLB's write today. But going out into the insurance sector is going to be a real undertaking for them, and it's going to open up a lot of criticism for them. And I was glad to see this in your statement. We had something like that yesterday down in Hutchinson. We had somebody recommend, and I believe he was in the banking field, that the FLB's and the PCA's go to variable interest rates?

Mr. CASHDOLLAR. A Farmers Union witness.

Mr. JONES of Tennessee. Yes, a Farmer Union witness. I don't see how variable interest rates would work with the Federal land bank. Anybody here from a PCA? Do you all have variable interest rates?

A VOICE. Yes; we do.

Mr. JONES of Tennessee. We do in my country, too. But I don't know how you can do that with land bank loans.

A VOICE. I am from the farm credit system, and we have been in the variable interest rate program since 1966.

Mr. JONES of Tennessee. With the land bank?

A VOICE. With the land bank. It's tied to money costs and it's been a very good program. I think it's been very well accepted.

Mr. JONES of Tennessee. Does that mean that you don't have any more 5 percent loans?

A VOICE. That is correct, sir.

Mr. JONES of Tennessee. Just what I thought you meant. All the banks don't do that?

A VOICE. All the land banks in the whole system of the United States are all on variable interest rates today. A good example is today the highest money costs, the rate in our district is 9½ compared to the primary which we all know. I think that is tied to the overall bond outstanding and it's looked at in terms of the total cost to the system and what is required to maintain income and reserves for the system.

Mr. JONES of Tennessee. That is what this man was recommending yesterday.

Mr. CASHDOLLAR. He was complaining about it. He didn't like it.

Mr. FLETCHER. He wanted to get away from the variable rates.

Mr. JONES of Tennessee. Is that what he said? I thought it was the other way around.

Mr. DASCHLE. Tomorrow we will be talking more about your testimony and figuring out what you said.

Mr. JONES of Tennessee. We have got to read it.

A VOICE. If I may interject here, land bank variable rates have been going up. I think it's a point and a quarter in the past year. Isn't that correct?

A VOICE. Three-quarters in our district. It varies in the districts.

A VOICE. It has gone up from the time that, say, I signed up for a loan, three-quarters of a point or a point and a quarter.

MR. JONES of Tennessee. Are you from Omaha?

A VOICE. Yes, sir.

MR. JONES of Tennessee. You said something about the export-import financing bill in part of your Farm Credit Administration recommendations. You said international banking is a complicated and risky business. I imagine it is. On the surface it appears to be a long way from the original intent of the purpose of the farm credit system. We urge extreme caution and detailed study before this proposal is adopted. Let me say to all of you here, this subcommittee will need some help in that area because we, at this point, are not sure as to what the direction should be, either. We don't know. We were in Hutchinson yesterday. And, of course, you can imagine that they had some testimony there that would be interested in exporting-import financing by the Farm Credit Administration. But it's the first that we have had. And I was glad to see you said what you did here.

I won't take any more time, Tom. Thank you.

MR. DASCHLE. I wanted to ask a couple of questions in regard to the way the State, Federal, and the county levels function together in determining conservation practices in a given county. How well do they work? Is there ever any conflict between or among the three levels or is it generally decided upon? Who has the lead role in determining county conservation practices?

MR. SCHULTZ. Are you talking about Great Plains?

MR. DASCHLE. Primarily Great Plains.

MR. SCHULTZ. The State has a committee. I sat in as part of it a short time ago where we decided on the various programs we felt would be of interest across the State, and then it comes to each district and they review that program and practices and then they have the opportunity to submit any better one that they may have that they think has promise. It's sent into the State and into D.C. to be turned down, probably. But I think it works quite well. We have a say, is what you are trying to say?

MR. DASCHLE. To what degree does that decision depend upon the kind of interest there appears to be? I understand now for the Great Plains program nationwide there is a waiting list of close to 6,000 people. And if you break that down by counties you find there is quite a waiting list. What factors are weighed into your decisions on these counties?

MR. SCHULTZ. That is a good question, you know. When they lay there so long people lose interest. And in our district we attempt to not get too many in. If a fellow has to wait too long, he is going to be real discouraged and it's been such a touch and go type thing for so long, that you never know one year to the next.

A VOICE. In our particular area up there, the supervisors set up priority on these applications; in other words, there is some of them that are real emergencies, you might say, and some of them are what

we know are long-range plans. We can't get them all honored, you know, so they have to kind of wait their turn. And the supervisors in our particular district, local district, we set those priorities. We have five supervisors and they pretty well represent the district, see.

Mr. DASCHLE. You have a comment, too, on that?

A VOICE. Tom, yes. You know, Mina Lake, 10 miles to the west, there is a water quality improvement area involved there. It involves three conservation districts, McPherson, Edmunds, and South Brown. As far as determination on which area gets the priority, which landowner gets the priority, in Edmunds County we have been operating primarily on the basis that those within the watershed to the Mina Lake at present have priority. Not only do we use the Great Plains program there, we also use the water planning program, which has not been mentioned here, but which is in the testimony which was presented by North Dakota. We are also using a special ACP fund that was guaranteed to us by the State ASCS committee.

Now, to answer the other part of your question as far as how dockets are developed, as chairman of the State conservation commission, I'm one of the members that serves on a State committee that develops the State docket along with people from South Dakota State University, Forestry Service, and many other State and Federal agencies. This group recommends to the State ASCS committee the practices and, in many cases, priorities and patterns of cost sharing. But these are primarily recommendations. The State ASCS committee can use them or they need not use them. But primarily they follow the recommendations of this committee.

Mr. DASCHLE. Lars, I wanted to ask you a question in regard to that legislation that you are proposing in Pierre dealing with what is the tax credit that would provide a writeoff of your investment for shelter belts and other defined conservation practices; is that it?

Mr. HERSETH. No; that piece of legislation was not very progressive—you might say—in manner, and wouldn't have, on an individual basis, have meant a great deal to each individual landowner unless he happened to have a great number of acres in trees. But what it did was give a tax credit to those number of acres; in other words, he puts those into a shelter belt area. He is still, depending upon what area or what county you are in, paying anywhere from 50 cents, I suppose, to \$8 or \$9 an acre in taxes every year on that shelter belt. You might have 25 or 30 acres and still be required to maintain them. What that program did was rebate, you might say, back to the local level the amount of dollars that he had paid in taxes.

Mr. DASCHLE. Going along with what the chairman said earlier, I think in trying to provide a way of giving an incentive to people that conserve above and beyond the benefit that is derived obviously from conservation—and that is a very discernible benefit—it seems to me that a tax credit has some merit. We are talking about operating costs that are skyrocketing and we are trying to find ways in which to promote development of conservation. And it almost seems to me that we are in a position to deal with both operating costs and conservation through incentives, through that idea. It's an interesting one to kick around. And it would be interesting to take a look at it at the Federal level. And I don't know if anybody has any comment on it, but it—

A VOICE. NACD has brought up this idea they call a free ticket, I believe. They haven't really set any guidelines. What we hope would happen would be it would be taken over locally. In other words, a farmer or rancher that had accomplished a good job of conservation, would be awarded a free ticket certificate or whatever, but in the end result I think their hope was that maybe through tax rebate or tax incentive, local or maybe even State. I don't know. It could get to be a terrifically large program to manage, is the only thing. I am not against it, but when you are starting to think big, it could get out of hand. And already the supervisors in every State in the Union are swarmed with work. But maybe something good will come out of it after all. They are doing a lot of study on this.

Mr. HARNER. Tom, if I might just comment on that, one of the problems we ran into was that piece of legislation was would the benefits equal out the administrative cost. And there were, of course, administrative costs involved between State and local government. And, you know, that is part, I think, of the difficulty of relying upon the State government and State funds to finance conservation practices.

A VOICE. Tom, one of my pet peeves is that agriculture or farmers and ranchers that practice conservation never get any credit for the fringe benefits that result from the work they do, and I am talking for one part, the wildlife. Now, I am not a hunter. In fact, if a deer took a look at me, I couldn't shoot him. I have trouble shooting skunks and gophers. But we have those. We have an abundance of wildlife on our unit. In fact, in 1976 our unit was one of three that was picked by the State by the Isaak Walton League for wildlife conservation. And maybe this is one of the points that you people on the committee will have to use to sell this to your urban counterparts.

The point that really peeves me is that we are not given any credit for water impoundments, manmade water impoundment as far as what it does for waterfowl. In driving back and forth from one field to the other, I go by about eight of these what they call low-lie dugouts. They are about a 2,000-cubic-foot hole that has water in it. And I see ducks on there. And, of course, I thought after listening to wildlife biologists that these must all be retarded ducks because they aren't supposed to be using those. But a study that was made by the U.S. Fish and Wildlife Service back in 1958 and was never released—in fact, the copy I got said that it was confidential for intradepartmental use only—stated or showed that waterfowl was using the low-lie dugouts even more than the national wetlands. But we are never told this. We are never given any credit for all these things that we have done. I think it's about time that our city cousins realize that what we do as far as conservation has many fringe benefits over and above the wildlife ones that I have mentioned.

Mr. DASCHLE. I want to pursue just a couple of other questions before we break up this morning. They deal mainly with the legislation specifically that we have in front of us right now. There were some differences, and I just want to get your general overview of how you feel, what you think of the differences.

There are four bills pending before the committee. Some of the bills provide for limiting the Great Plains conservation program to

the 10 States that are currently designated. Some designate that other counties may be used or may, once we review this program, enroll in the program. There are bills that will open this up entirely to the whole country. And I would just be interested in your thoughts on how you think that next extension of the Great Plains program, if indeed we can get it passed, ought to be written. I don't seem to have a consensus in my own mind on how you feel about it.

Mr. SCHULTZ. I am glad you brought that up, Tom. I was wondering where we should do it. I think personally NACD, as long as I have worked with them, their standing has been hopefully for an open-ended bill as far as years and as far as money and include all of the counties in these 10 States. Now, I noticed one bill, and I believe Congressman Jones had his name on that, which would allow counties outside of this area to be a part of this. If they do that, I think that is good. Not that I like to agree with you, but I think this is a tremendous program and people outside should have an opportunity to get in. And I have been approached by several people from Tennessee, and they have an area there that they do have a problem.

Mr. DASCHLE. So you are saying, Leonard, it ought to be open-ended, it ought to include the entire country and—

Mr. SCHULTZ. If you got the money to go with it. No. I think it would be good anyplace in the United States and it could be regionalized and that is my opinion. I have held it for some time.

Mr. HERSETH. You know, I guess a little bit different line is I tend to agree that it probably could be used throughout the country. But depending on how much financing you are able to get through the budget and through the rest of the Congress as to whether it will go into the program, if you spread those dollars too thin across the whole country, you really don't have a program any more because you have certain areas that are more devastated and more susceptible to wind and water erosion, and I think in—those might not lie within the 10-State region. And perhaps a mechanism should be built into that legislation where you have a county or group of counties in a given State that lies outside of that region but has a tremendous problem in that area, that somehow through some mechanism they could petition into the program. To make it open-ended, I think you would spread your dollars so thin that pretty soon you wouldn't handle any problems.

Mr. JONES of Tennessee. I think what you gentlemen are saying is, you want the Great Plains program continued and you don't want any damage done to the funding of the present program as far as the 10 States are concerned, but you think it's a good idea nationally if you can get the money, is that what you are saying?

A VOICE. I concur with Lars.

Mr. SCHULTZ. There isn't any question.

Mr. HARNER. It seems to me that we have had a program that hasn't been mentioned here today called resource conservation program, and we have seen some of these dilutions of money where the pie stays the same and we get more and more projects and it's sliced thinner to accommodate those other projects. That is a good example of what we are saying here. And it would seem to me that perhaps it wouldn't be a Great Plains program for the rest of the country, but there certainly are possibilities for regional programs that are similar to the Great

Plains program and that are based on the same basic principles as the program. But the fear certainly is that if we enlarge the area that is covered by the Great Plains program, that the funding will stay the same and be sliced down thinner and thinner.

Mr. JONES of Tennessee. That is the big problem this committee is going to have to really take some notice of because there is no reason to damage the Great Plains program. It's too good a program. It may have its weaknesses like all of us have weaknesses, but at the same time I come from an area that needs help, and you know that, Leonard. I wouldn't want to do something that would be in jeopardy of this. I don't know whose bill that was that has got my name on it.

Mr. SCHULTZ. I don't know which bill it is on that. I am like you, again, I didn't bring it with me. I had a couple.

Mr. MARTENS. I would like to comment on the working relationships between the ASCS offices, the SCS and the soil and water board. The problem is in personnel and not the agencies. We have gone from a situation in our county where the door never opened between the two offices to a point where we have to grease the doors. Personnel is the big problem.

Another thing on the Great Plains, we don't have it in Minnesota. And I can see just in hearing what has been said here that we could handle that through our ASCS system with the development committees working like we do on this limestone. I don't think we need, if you can excuse the expression, another bureaucracy. We have it here. We have offices in 3,000 counties throughout the United States. So I guess what we have got to do, do we want administrative costs or do we want conservation on the land. And this is what your committee is going to have to make a determination on.

Mr. DASCHLE. Dale, let me ask you, you were enrolled in a program how many years now?

Mr. ENGELHART. Two.

Mr. DASCHLE. Two. And were you on a waiting list before you got in there?

Mr. ENGELHART. No.

Mr. DASCHLE. You got right in. And how about you, Fritz?

Mr. ROSEBROCK. I got in early.

Mr. DASCHLE. Where is this waiting list coming from? Is it just a case of not enough money or are there other problems involved besides the money?

A VOICE. I think these two gentlemen here from Brown County, the reason there was no waiting list here primarily is Brown County is a recent addition to the Great Plains area. In the areas where it has been in existence since the original bill, this is, I believe, where the waiting lists are. Now, when they see the advantages, it precipitates a waiting list.

Mr. GUY. I think Brown County was only added about 4, 5 years ago.

Mr. ROSEBROCK. 1971.

Mr. GUY. That long?

Mr. DASCHLE. So what you're saying is the longer it's around the more people want to get involved and mainly it's a question of funding; it isn't that there are too many papers to fill out and applica-

tions and all this that keeps you on the waiting list? It's just that your number comes up as the money becomes available, is that correct?

A VOICE. Frequently.

Mr. GAP. I am Robert Gap. I am with the McPherson County Conservation District and we presently have 95 active contracts in our county. We have 10-member operators waiting to get on Great Plain contracts. So we have about 10 percent of what we can serve that are not being served. And it's primarily because of lack of funding. Just to go a little further, our county has only about one-third of its land that has been under a Great Plains contract. Also going back to the 1976 drought, I believe it's a matter of record that the people that were on the Great Plains contract did not need Federal assistance as much or probably none at all in the emergency feed program. So the Great Plains contract benefits not just the individual farmer, but it benefits the whole Nation in that respect, that it doesn't call in the Federal Government for emergency programs.

Mr. DASCHLE. You have a big program there—150,000 acres I have got listed here, approximately enrolled in Great Plains. Is that about it?

Mr. GAP. In the county?

Mr. DASCHLE. Yes.

Mr. GAP. At present we have a total Great Plains contract acreage of 259,000. Active ones would be approximately the figure you have.

Mr. DASCHLE. I am talking about contracts, I guess, 112 contracts?

Mr. GAP. Ninety-five contracts that are active at the present time.

Mr. DASCHLE. We have got the most up-to-date Government sources.

Let me ask one other question and then close up the meeting. I have got a list of all of the practices that are authorized under Great Plains. I am wondering as we look at the next 10 years, have we left out practices that are authorized that shouldn't be? How do you look upon the program as it exists? Does it go far enough or are we authorizing some things in here that may not need to be authorized?

Mr. SCHULTZ. I think each county can weed them out. Some of them were left there just in case they maybe have value someplace. We added one we asked for. That has to come from your town. Maybe you could have it and I have never heard of it. But that, we feel, would be an erosion control because the State has erosion control law. The thing has great possibility.

A VOICE. Tom, another problem we have in the western South Dakota district I think is personnel, SCS personnel to handle these contracts. In my district I can't remember how many contracts we have got. We have got a lot of them. But we have got a waiting list of 25 or 30 right now. We can't do a thing with them because we don't have the funds. And if the funds were to come through tomorrow, we wouldn't have the personnel. That is true in a lot of counties, and I believe you have got Brad Bonhorst here from the State office. Do you agree with that?

Mr. BONHORST. We have a problem with personnel, yes.

A VOICE. It isn't only funds, it is also personnel. Of course, indirectly that runs into funds, you know, at the Washington level.

Mr. DASCHLE. Mr. Chairman, I am out of questions. Is there any other comment that somebody would like to make before we close? Chuck Bellman is in the back. Chuck?

Mr. BELLMAN. I am from Faulk County, and we have about 14 or 13 on the waiting list right now. The funds are not available which everybody is talking about. This would be a good time to ask when those funds would become available because October 1 was some sort of deadline. And there are some other comments I will make, but I will present them later. Thank you.

Mr. DASCHLE. Next week I think the continuing resolution will be passed. And as soon as that happens, funds will be made available for the next fiscal year. I would guess no later than the middle of the week. But that is a very legitimate question, and it's not one that I like to have to answer because I think it should be.

Mr. BELLMAN. I hope they understand it freezes up here and we have frost, and water projects get a little bit behind.

Mr. DASCHLE. If there are no other comments or questions, for me this has been a very productive and informative session. Your testimony and information you have provided is just excellent, and I want to thank each and every one of you. I know some of you came from long distances, and I want you to know how much we appreciate it, each and every one. Thank you very much for coming.

Mr. JONES of Tennessee. Tom, before you leave, I looked up this testimony, and I want to straighten that out about the Farmer Union man. He does oppose the variable interest rates. That means you were right. I wanted to be sure about that.

Mr. DASCHLE. Thank you all.

[Whereupon, at 12:05 p.m., the committee recessed, to reconvene at 1:30 p.m.]

AFTERNOON SESSION

Mr. DASCHLE. At the afternoon hearing of the Conservation and Credit Subcommittee of the House Committee on Agriculture, we are going to be dealing with agricultural credit. For those of you who don't know me, I am Tom Daschle and I am the Congressman in the first district. With me is the chairman of the Subcommittee on Conservation and Credit of the House Committee on Agriculture, Ed Jones, from Tennessee.

I have a couple of remarks that I would like to make in opening the meeting this afternoon, and then we will take testimony from our witnesses.

One of the most pressing problems confronting our Nation's family farmers and ranchers is the availability of credit. According to estimated figures by the Farm Credit Administration, the debt has increased in 1978 by \$17 billion to an estimated level of \$135 billion. Loans by governmental agencies contributed greatly to this increased loan level. For fiscal year 1977 to fiscal year 1978, agricultural loans by the Small Business Administration increased by 180 percent, Farmers Home Administration by 108 percent, and the Commodity Credit Corporation loans by 63 percent.

One of the leading agricultural lenders today is the subject of the afternoon session of this hearing. This lender, the Farm Credit System, can be seen in many South Dakota communities as well as in other communities throughout the country. The popularity of the Farm Credit System consisting primarily of the Federal land bank, Production Credit Association, and the bank for cooperatives, is evidenced

by the balance sheet of the Farm Credit System. The Federal Land Bank System made over 71,000 loans totaling more than \$6 billion during 1978, with the Production Credit Association loaning over \$22.5 billion during that same time period. Nearly \$45.3 billion in loans was borrowed in fiscal year 1978 from the Farm Credit System reflecting an increase of over 15 percent over that of fiscal year 1977.

There have been four main issues which the Farm Credit Amendments of 1979 address and hopefully that we will address this afternoon in this subcommittee hearing. Among the concepts this subcommittee will be examining will be the determination of cooperative eligibility, whether or not the number of actual farm members of a cooperative can be reduced and still maintain the principal of farmer control, as well as whether or not to lift the 85-percent lending limitation for Federal land banks and allow them to make loans in excess of 85 percent of the appraised value of the real estate security when governmental agency guarantees are provided.

Farmers and ranchers have long recognized the importance of processing and marketing in the cost of food products, and one of the long-range provisions of these amendments would allow the Farm Credit System, "to expand the scope of their services in processing and marketing." Finally, these amendments propose the authorization of banks for cooperatives to provide financing for agricultural export transactions where a U.S. cooperative is the primary beneficiary.

Those provisions, as well as others, including the availability of services such as insurance, sales and the length of PCA loan terms are all areas which deserve close scrutinization by the subcommittee.

I want to welcome each and every one of you, and I particularly want to welcome and commend the chairman of the subcommittee for coming before you and me this afternoon and assuring us that the committee in Washington can be responsive and receptive to your interests and your concerns. And I think his presence here reflects that concern. And as we begin this afternoon, I just want to extend a hearty welcome to Ed Jones from the people of South Dakota.

Mr. JONES of Tennessee. Thank you, Tom, and I want to also say that I am delighted to be here. This is the way the subcommittee should operate in these hearings. Going out to the communities to hear from the people who are actually involved, and see how they feel about the new legislation as well as the old legislation. I think it's very appropriate to meet here in Aberdeen, because the area is served by the bank in Omaha. As you well know, it does do a tremendous business in this country. We are just delighted to be a part of today's podium. I would like to say that Mr. Hovendick, president of the Federal Union Credit Bank at Omaha, has submitted a prepared statement for the record.

Mr. DASCHLE. Mr. Chairman, if you want to proceed as we have this morning, I think it worked out very well. This morning we had everybody testify and then at the end of the testimony we brought everybody back up and had a discussion about those issues that were raised during the testimony. With the exception of President Radcliffe from the Farmers Union, I think we will proceed on that same basis this afternoon. Ben Radcliffe has another appointment and cannot stay with us the entire afternoon. So with that, I will introduce our first witness, Ben Radcliffe, who is the president of the South Dakota Farmers

Union, long an advocate of issues concerning farmers. And, Ben, we are delighted to have you this afternoon and if you so desire, we can insert your entire statement in the record. And if you want to summarize your remarks, we will be glad to have your testimony at this time.

STATEMENT OF BEN H. RADCLIFFE, PRESIDENT OF THE SOUTH DAKOTA FARMERS UNION

MR. RADCLIFFE. Thank you, Mr. Chairman. My name is Ben Radcliffe, president of the South Dakota Farmers Union and a member of the executive board of the National Farmers Union. My address is Huron, S. Dak. I continue to own a family farm near Redfield, S. Dak.

I would like, in beginning, to commend you, Congressman Jones and Congressman Daschle, for taking time to come to the country. We really appreciate the fact that you very busy people have come out here to hear the farmers and the cooperatives. I also appreciate you putting me on the program early because I do have to be in Sioux Falls later this afternoon.

Farmers Union has a long history of support for the credit agencies authorized by the Farm Credit Act of 1916. Farmers today know these agencies as Production Credit Associations, which provide operating credit; Federal Land Bank associations, which provide real estate loans; and the district banks for cooperatives, which service the credit needs of farmer cooperatives. The original intent of Congress in establishing these cooperative credit institutions was to give farmers a more satisfactory means of supplying themselves with credit.

The attached excerpt from the 1979 statement of policy of National Farmers Union further amplifies the attitude of our members toward the Farm Credit Administration and its agencies.

Now, I would like to turn to S. 1465 with comments on its specific changes in credit policies and structure of the credit institutions under the jurisdiction of the Farm Credit Administration.

First, we would like to comment on the proposed amendment to the Farm Credit Act of 1971, which would authorize the FCA to charter corporations to perform service and financial functions. Under present law, district boards are empowered to authorize agreements between institutions within a district to provide for joint services to borrowers, and to make joint undertakings between districts in providing joint services.

Currently, such services relate to record-keeping, equipment leasing, real estate appraisal service and the sale of casualty and liability insurance, credit life insurance, and crop, fire, and hail insurance.

We strongly oppose FCA agencies engaging in the sale of insurance. Such sales are not a necessary function of farm credit and constitute a duplication of services that are already available in the private sphere. As you will note from the policy statement mentioned above, our delegates have expressed strong disapproval of the FCA agencies engaging in the sale of insurance except for credit life insurance. It would be in order, therefore, for questions to be raised concerning this proposed amendment to the Farm Credit Act.

For example, would extension of such authority to the Farm Credit Administration result in the establishment of an insurance company

or companies and expansion into other businesses? We ask that the subcommittee seriously question the need for such authority. What are the long-range implications of empowering the FCA to charge corporations for the purpose of extending services to borrowers which are not related to the direct lending operations?

Second, we would like to comment on the proposed amendment which exempts the FCA agencies from the Truth-in-Lending Act. For several years, spokesmen for the agency have urged Congress to exempt agricultural credit from the provisions of the Truth-in-Lending Act. This has been the case in spite of the fact that the Farm Credit institutions provide only about one-third of the credit used by the Nation's farm families. We have strongly resisted the proposed change and, on one occasion, debated an FCA spokesman in a public Senate hearing, making what we think is a sound case for retaining full disclosure under the Truth-in-Lending Act for loans made to farmers by Farm Credit Administration agencies.

We therefore urge the committee to give careful examination to this proposed amendment. Certainly the information called for by the Truth-in-Lending Act is readily available as loans are consummated, and we see no reason why this information should not be made available to farmer borrowers. We are especially concerned that other lenders also be required to comply with the Truth-in-Lending Act.

Third, we would like to comment on the amendment which would broaden the authority of the PCA's and the FLBA's to finance processing and marketing enterprises which would be a part of farming, ranching, or aquatic operations of eligible applicants and borrowers. There are several questions that we would like to raise concerning this amendment:

First, would the making of such loans, which would require additional capital in this system, in any way interfere with the making of traditional loans available through the FCA agencies?

Second, would the authority which this amendment would extend result ultimately in the Farm Credit agencies making loans to businesses for processing and marketing, moving away from the farmer clientele that it has traditionally served?

And third, would the extension of such authority interfere with the lending operations through the Bank of Cooperatives which includes loans to groups of farmers for processing and marketing purposes?

Fourth, another amendment sought by the Farm Credit Administration would authorize the BC's to finance export transactions, including allowing the BC's to make deposits in foreign banks, receive and hold credit balances from banks and borrowers, buy time drafts payable by foreign buyers, take part in currency exchanges, and make loans to facilitate transactions to foreign cooperatives.

This amendment is perhaps the most significant in terms of changing the nature of the lending operations of the Bank of Cooperatives.

International banking is a complicated business.

Our domestic banking institutions, for example, that engage in banking on an international scale have a huge network of overseas offices. It is, therefore, difficult to comprehend just what is to be accomplished by extending the banker cooperatives' lending operations in a manner that would be authorized by this amendment. We urge the

committee to give consideration to the impact of this change and in this context to decide whether this authority is needed to give farmer cooperatives additional sales capabilities in international markets. Certainly, if it would accomplish that purpose, it would be a step in the right direction.

Fifth, H.R. 4782 would lower the percentage of farmer members of cooperatives borrowing from MC's from 80 to 60 percent, except for rural electric cooperatives where the percentage of farmer members of cooperatives would be 70 percent. This change has been considered within our membership ranks for some time, and in the attached policy statement you will find that it has the support of our delegate body.

Sixth, H.R. 4782 would clarify and reaffirm that lending by the farm credit system is exempt from State usury laws. It is obvious that such exemption does enable the FCA agencies to assure availability of credit for farmers and ranchers in "tight money" periods. To the extent that interest rates range above limitations set by the usury laws of individual States, farmers and ranchers, of course, pay a price for the maintenance of exemption.

The problem that we see with this amendment is that the farm credit system feels it is needed in the first place. It would obviously be to the best interests of farmer borrowers from FCA agencies if the credit available were to be at a reasonable cost, hopefully lower than other private credit sources. If such were the case, the question of exemption from usury laws would never have occurred.

Next, H.R. 4782 would require that only two nominees in each district be voted on in the election process for district director, rather than three nominees as is required under present law. The case for this amendment, according to FCA spokesmen, relates to the fact that two nominees would assure that the elected district director would receive a majority of the votes passed. Very frankly, we see relatively little merit in reducing the number of nominees. The three-nominee procedure would seemingly be in line with giving eligible voters additional latitude in the selection of a district director.

Next, 4782 would amend existing law to remove FCA employees from the classification requirements of the Office of Personnel Management but would continue the salary ceiling of the general schedule currently set at \$47,000 annually.

Further, the FCA would be enabled under the proposed amendments to, one, establish its own requirements for qualification for positions in the agency; two, to set salaries of the Farm Credit Administration governor and deputy governors within the perimeters of the executive schedule; to be exempt from Federal travel procurement and property regulations; to be permitted portability of sick leave and retirement between Farm Credit System, district retirement plans, and Civil Service System; and five, to increase the per diem of the members of the FCA Board to the daily equivalent of that prescribed for GS-18. There appears to be some contradiction in these amendments.

Spokesmen for the Farm Credit Administration have expressed considerable pride on occasion on the autonomy of the agencies—the fact that no Federal funds are appropriated to sustain the agencies' operations is often cited as a major accomplishment of the Farm Credit Administration.

The conflict, as we see it, is between the amendments that would further exempt FCA employees from classification requirements of the office of personnel management and to exempt the FCA from other Federal regulations, and the amendment to allow for portability of sick leave and retirement between Farm Credit District retirement plans and the Civil Service retirement system. These amendments move in the opposite directions. The committee, therefore, may want to give consideration to procedures in this connection which are consistent and, at the same time, reflect sound management policy.

H.R. 4782 provides for other changes in the operation of the FCA's credit functions. We have attempted to comment on those we think are of the greatest significance. There are some Washington observers who have characterized the changes in H.R. 4782 as moving the Farm Credit Administration and its agencies in the direction of a multi- or full-service banking institution. Whether this is good for farmers depends on the extent to which these agencies depart from the historic traditional mandate of the Congress directing them to serve the direct needs of the Nation's farm families. This is the yardstick that we urge the committee consider as it acts on the comprehensive changes that would be authorized by H.R. 4782. Thank you.

[The attachment referred to follows:]

EXCERPT FROM

NATIONAL FARMERS UNION
1979 POLICY STATEMENT

Adopted by Delegates
to the
77th Annual Convention
Kansas City, Missouri
March 11-14, 1979

Cooperative Farm Credit

We recognize that this cooperative system is dependent on the nation's money markets for its supply of loan funds and is thus largely unable to control factors that determine interest rates and the supply of money. Nevertheless, we urge that the system strive to ease the credit squeeze and reduce high rates of interest to family farmers and ranchers.

The Farm Credit banks should develop additional sources of loan funds to assure a plentiful supply of credit to farmers and ranchers at the lowest possible rates.

The securities of the Farm Credit System are available to individual farmers and ranchers and may be purchased from various dealers throughout the United States. In an endeavor to provide additional funding for the Farm Credit System, we urge that individual farmers and ranchers invest in these securities as they might invest in their own cooperative credit system.

We support the reduction of the membership criteria in the Bank for Cooperatives from 80 to 60 percent so the Bank can more adequately meet the financial needs of all cooperatives.

We urge Production Credit Associations to avail themselves of existing statutes which permit allocation of earnings on interest paid by the borrower.

The preeminent status of Farm Credit agencies in supplying credit to farmers, ranchers, and cooperatives gives such agencies the opportunity to exercise undue influence upon the purchase of insurance coverages by their patrons.

The prejudicing of farmers' and ranchers' choices of insurance coverages by suppliers of credit is contrary to the principle of free competition and abridges the freedom of choice by farmers and ranchers of their insurance coverage and of the general farm organizational or fraternal affiliations which are frequently associated with insurance.

The close relationship that exists between the federal government and the Farm Credit System makes the tie-in between sales of insurance and the granting of credit particularly objectionable.

Accordingly, we urge the Congress to prohibit the sale of insurance by Farm Credit agencies.

We recommend facility loans to include farm machinery and equipment.

Credit Policies and Programs

Farm credit is not a substitute for parity farm prices and income.

Access to adequate credit at reasonable cost is essential if family farmers and ranchers are to operate effectively and competitively. Government policies and programs should be designed to assure an adequate flow of credit to independent farmers and ranchers.

We deplore the constant escalation of interest rates which impose an intolerable burden, especially upon young farmers and ranchers whose initial capital requirements are excessive. The success of efforts by the capital-furnishing interests in abolishing usury limits dismays us. It is vital to the long-term survival of family farm/ranch agriculture to keep interest rates at a minimum.

Mr. DASCHLE. Thank you, Ben.

Given your schedule, Mr. Chairman, are there any questions you would like to address to Mr. Radcliffe?

Mr. JONES of Tennessee. I realize the tight schedule that we are under, Tom, and I believe not. His testimony, and I made some notes on it, very clearly illustrates the position of the Farmers Union, and I think we can take the testimony and discern it without any trouble at all. It's very good, Mr. Radcliffe. I want to thank you for your statement. We had a good statement from Mr. Daley in Hutchinson yesterday.

Mr. DASCHLE. There are a number of things in your testimony that I would like to pursue with you further, but that can be done at another time. I want to thank you very much for coming before the subcommittee.

Mr. RADCLIFFE. Thank you for allowing me to appear.

Mr. DASCHLE. The next witnesses will be a panel. They will probably be representing Federal Land Bank and Farm Credit Associations.

Leo Allmendinger from Selby is here. He is the Omaha district director of the Farm Credit Administration. Warren Grebner is here. He is manager of the South Dakota Wheatgrowers in Aberdeen. Virgil Fodness, president of East River Electric Power Cooperative in Madison, James Heiser, vice president of the Federal Intermediate Credit Bank of Omaha, and Roland Chicoine, the director of the Sioux Falls Federal Land Bank Association, a successful farmer in Union County. At this time, we will take your testimony.

Gentlemen, we are very delighted and especially appreciative to each one of you for coming the distances you have. I don't think there is a one here that had less than 150 miles to come, and I appreciate it very much. I know how difficult it is to get away with your busy schedule, and for you to appear this afternoon is very helpful to the committee, and you can pursue in any fashion as you see fit. I hope that each one of you will take a moment to provide us with your views.

STATEMENT OF LEO A. ALLMENDINGER, OMAHA DISTRICT DIRECTOR OF FARM CREDIT ADMINISTRATION, ACCOMPANIED BY WARREN GREBNER, MANAGER, SOUTH DAKOTA WHEATGROWERS; VIRGIL FODNESS, PRESIDENT, EAST RIVER ELECTRIC POWER COOPERATIVE; JAMES HEISER, VICE PRESIDENT, FEDERAL INTERMEDIATE CREDIT BANK; AND ROLAND CHICOINE, DIRECTOR, SIOUX FALLS FEDERAL LAND BANK ASSOCIATION

Mr. ALLMENDINGER. Thank you very much. On behalf of this panel, I would like to take this opportunity to welcome Mr. Jones to South Dakota. We are certainly very pleased that you would come out and see us and give us this opportunity. Congressman Daschle, we appreciate you coming back and listening to us.

I am Leo Allmendinger. I am a farmer from Selby, S. Dak., and also a member of the Farm Credit Board of Omaha, Eighth Farm Credit District. We have loans outstanding to nearly 80,000 farmers and ranchers, 550 cooperatives in South Dakota, Iowa, Nebraska, and Wyoming. As a district director, I represent these farmers and cooperatives,

and I appreciate this opportunity to express my views as a farm credit director and also as a farmer supporting H.R. 4782, the Farm Credit Amendment of 1979.

The Farm Credit Act of 1971, which we are asking to amend, reads as follows:

To improve the income and well-being of American farmers and ranchers by furnishing sound, adequate and construct credit, closer related services to them, their cooperatives and to selected farmer-related businesses necessary for efficient farm operations.

During the past 2 years considerable study and discussion has been given by both management and farm members of the system to proposals which would better and more completely serve the credit needs of American agriculture. And as a result, at the outset 4,081 proposals for omitting the Farm Credit Act of 1971 were initially submitted. And through more study—and a lot of study, I might add—the system realized or we realized that it was very necessary for us to come before you with a group of proposals that we could all support. So last April the Federal Farm Credit Board unanimously recommended to Congress that 28 amendments be enacted into law. And although there are 28 amendments, I would briefly like to highlight just five of the proposals.

First, House bill 4782 would authorize the bank for cooperatives to finance agricultural export transactions which benefit U.S. cooperatives and the farmers who own them. And really, the export market today is one of the big bright spots in the future of American agriculture. And it is also one of the big bright spots when we look at balancing world trade.

Second, the bill would require that at least 60 percent of the voting members of a cooperative must be farmers to be eligible to borrow from a bank for cooperatives, and the present minimum is 80 percent. And today many cooperatives have to service more rural residents than they did in 1971. And so many cooperatives now find it very difficult to meet the eligibility requirement.

Third, the legislation would broaden the authority of Federal land banks and production credit associations to finance processing and marketing activities, these that are directly related to the agricultural producers' operations of bona fide producers. This proposal is intended to assist farmers and ranchers who are not eligible to borrow from the system to acquire or improve processing and marketing capabilities from their own agricultural production.

Four, this legislation would permit the Federal land banks to make loans for more than 85 percent of the present value of farm real estate when these loans are guaranteed by a Federal agency such as FHA or by a State government.

The last proposal I would like to summarize is extremely important for the future success of the farm credit system. The legislation would improve the ability of the Farm Credit Administration to recruit, hire, and retain qualified people to examine and supervise the \$50 billion farm credit system. Specifically, the ability would delegate to the Federal Farm Credit Board the authority to set within limits the salaries of the Governor and Deputy Governor of the Farm Credit Administration. It would authorize the Farm Credit Administration to manage, first, salaries below the deputy governor level; second,

employees' qualification requirements; third, procurement and product policies. And it would also provide improved portability. And I think this is an area that is extremely important when we look at the future of the farm credit system. It is, indeed, very hard to attract and retain the kind of people that we need to head up the Farm Credit Administration under the present setup. And the farm credit bank is not a profit-oriented corporation or business. We are a service organization. And there is no way that we can be of better service or be a better organization than the people that we have running it. And I feel this is very important to the future of the farm credit system. I would like to emphasize that the proposed changes would not require appropriated funds.

The banks and the associations of the farm credit system are organized as cooperatives, completely owned by their borrower members and use of Federal money. While the Farm Credit Administration is a Federal agency, its budget is met by the system, rather than with public funds.

These five major proposals constitute the heart of the Farm Credit Act Amendments of 1979. The remaining amendments contained in the legislation are designed primarily to clarify existing laws or are of importance to internal operations of the system.

I would also like to emphasize that House bill 4782 is truly a farmer and rancher bill. As a farmer member of the farm credit system, I can also assure that the Farm Credit Act Amendments of 1979 are designed to help keep this system responsive to the credit needs of all types, all sizes, and all ages of borrowers having a basis for credit as specified in the objectives of the Farm Credit Act of 1971. The bill was developed after a lot of hard work from the grassroots level of rural America. And I want to add that the director and members of the system who worked so hard on these proposals are also members of various farm and commodity organizations and other agricultural groups.

And in conclusion, I would like to say that I support the Farm Credit Act Amendments of 1979, not only because I am a farm credit director, but also because I am a farmer who depends on the farm credit system for my credit needs. And I truly believe that this legislation will help assure the continued growth and success of American farming. Thank you very much.

Mr. DASCHLE. Thank you very much. The last time Leo and I talked was on an airplane and we talked about these various things, and I appreciate having a chance to see you again.

[The prepared statement of Mr. Allmendinger follows:]

PREPARED STATEMENT OF LEO A. ALLMENDINGER, OMAHA FARM CREDIT BANKS

Mr. Chairman and members of the committee, my name is Leo Allmendinger. I am a Director of the Farm Credit Banks of Omaha, headquartered in Omaha, Nebraska. We are part of the Farm Credit System providing loan funds to farmers, ranchers, and cooperatives through the Federal Land Bank, Federal Intermediate Credit Bank, and Bank for Cooperatives in Iowa, Nebraska, South Dakota, and Wyoming.

I appreciate the opportunity to appear before you today to discuss H.R. 4782. Specifically, I would like to discuss the portion of the bill that addresses incorporation of System service entities.

One of the proposed amendments to the Farm Credit Act of 1971 would enable the Farm Credit Administration to charter corporations to be owned by one or more of the Farm Credit Banks.

The amendment would allow the Banks to organize a corporation for the purpose of performing any function or service previously authorized by Congress to the Banks. The bill would permit the Banks to apply for charters and at that time identify the objectives of the corporation, the powers to be exercised, and the service to be performed.

Our Banks as well as our Associations are continually seeking to work together, particularly in areas where we can achieve a common purpose and experience substantial cost savings. In many of these instances it would be very helpful to the Farm Credit System if a separate corporation could be formed to assist in providing services to the Banks.

Following are examples of some areas where our Banks presently work together, on a joint basis:

OFFICE OF JOINT SERVICES

In most Districts, the three Banks (Land Bank, Intermediate Credit Bank, and Bank for Cooperatives) hire joint employees and work together in the area of employee benefits, salary administration, purchasing, print shop, employee cafeteria, parking facilities, public relations projects, training projects, and similar "noncredit" functions.

FISCAL AGENCY

The 37 Farm Credit Banks market, administer, and redeem obligations of the Banks through a Fiscal Agency located in The Wall Street area of New York City. The Fiscal Agency presently is administering joint obligations of the Banks in an amount in excess of \$50 billion annually.

FARMBANK SERVICES

The Farm Credit Banks have created by agreement what is referred to as Farmbank Services, which seeks to perform the following functions, on a national basis:

Human Resources and Personnel Services.—The objective is to improve human resources capabilities, provide for employee mobility, achieve cost savings and efficiency of operations through coordinated personnel services, coordinate and communicate services and activities among the Districts and effect efficiency of joint services operations.

Research Service (Farm Research Information Service).—The objective is to provide the basic research which will generate information to support important management decisions.

Records Management System.—The objective is to have available a generalized, flexible centralized filing system specifically tailored to handle the changing record managements needs of the Farm Credit Banks. It would have provisions for all aspects of any well-organized filing process—indexing, retrieval, retention, access, control, security, etc.

Joint System Management Development and Training.—The objective is to provide coordinated management development and training opportunity for directors and employees of the Farm Credit System covering a wide range of identified needs, from conceptual to technical skills, supportive to the mission of the Farm Credit System.

Insurance Services.—The objective is to develop surety bond and insurance programs for employees of the Farm Credit System which are placed with private insurance carriers. This bill does not authorize creation of an insurance company.

NATIONAL DATA PROCESSING CENTER

The Land Banks have created by agreement a National Data Processing Center which performs a substantial portion of the data processing required by the Federal Land Banks.

Our Banks, when operating through the Office of Joint Services, Farmbank Services, Fiscal Agency, National Data Processing Center, etc., function on a cost-sharing basis. The joint operations have created problems in entering into contracts with vendors or providers of services because the vendors feel they are dealing with a "nonentity" without financial resources or stability.

I believe if our Banks were able to organize corporations, the difficulties encountered in our present joint operations (such as when dealing with vendors) would be eliminated. The availability of a corporate structure should encourage greater cooperation and coordination between our Banks and result in a more efficient organization and services to American agriculture.

Under the amendment, the Governor of the Farm Credit Administration would have the authority to prescribe the terms of the charter, approve bylaws, provide for the organization of the corporation, and to direct, at any time, such changes in the charter as he may find necessary to accomplish the purposes of the Farm Credit Act. The Governor would be specifically empowered to regulate:

1. Corporate name.
2. General corporate powers.
3. Eligibility for membership on, and the powers, composition, selection, terms, and compensation of the board of directors.
4. Classes, issuance, value, and retirement of stock.
5. Sources of operating funds.
6. Dissolution, liquidation, and distribution of assets of liquidation.
7. Application and distribution of earnings.

Any corporation organized pursuant to these provisions would be a part of the Farm Credit System and subject to the same supervision and examination as the Banks.

I want to be sure it is understood that the capital funding and operating expenses of these service corporations would be paid entirely by the Farm Credit Banks, and no federal dollars would be involved.

I strongly encourage your support of these efforts to provide a more progressive Farm Credit System for agriculture through H.R. 4782.

Mr. DASCHLE. Who's going to be next?

**STATEMENT OF WARREN G. GREBNER, MANAGER, SOUTH DAKOTA
WHEATGROWERS ASSOCIATION, ABERDEEN, S. DAK.**

Mr. GREBNER. Mr. Chairman, Congressman Daschle, I am Warren Grebner, manager of the South Dakota Wheatgrowers Association and it's headquartered here in Aberdeen. Presently we are providing more than 4,500 farmers and ranchers with production and marketing services for their operations. Last year the South Dakota Wheatgrowers had a total sales of more than \$50 million, and of that total nearly \$30 million was in members' grain, primarily wheat. This year our cooperative will receive \$60 million in sales, including a significant increase in the grain business. And so that is why it's important for me, representing the 4,500 farmer members, to discuss the export provisions of the proposed amendments to the Farm Credit Act introduced as H.R. 4782.

Farmers have recognized exports as a key to improving the economics of their business for many years. They have continued to direct their cooperatives into the export business of wanting to increase the cooperative share of the exports upward from the present 10 percent level. Because of the key role that the bank for cooperatives play in financing our cooperatives, it is natural to return to them for assistance in providing export financing services. International export transactions, as you are no doubt aware, are extremely complex arrangements. The handling and exchange of commodities in international markets requires such things as deployed payments, inventory financing and deposit and transactions with and from domestic and foreign banks.

In order for cooperatives to secure the necessary services at the present time, you must work with lenders that are not familiar with our operations and our total financial structure. Since financing coop-

eratives is the only business of the bank for cooperatives, it is desirable from the stockholder viewpoint that they are able to provide financing services for exports. The bank for cooperatives can help expedite the transactions which are essential in exporting any commodity. The bank for commodities provides these services at a minimal cost to cooperatives which translate to the maximum profits for farmers. And farmers would like their cooperative to have a larger part in the U.S. export market to give them greater confidence that the prices they receive fairly reflect world market value of their products.

Farm products are the most important commodities we have to offer in trade from the United States. It is one of the few alternatives to offset the huge cost of imports of oil. Farm exports are projected to exceed \$50 million in the near future. This year they will exceed more than \$30 million. It's estimated they will be \$32 million. Half of our wheat is sold overseas along with one-third of our feed grains. A study has shown that a 25-percent increase in farm exports can raise farm receipts 11.4 percent and net farm income 51.2 percent.

Once again, the point should be made that these benefits accrue without massive or costly Government programs. The increased exports will provide additional production incentives for one of the most productive segments of our economy. We would not be asking Congress to allow the bank for cooperatives to become active in export financing if we didn't believe they could be competitive. This competition can only do one thing, lower the cost of export financing or improve the services. Any attempt to stabilize or lower costs or to improve services for agriculture has our wholehearted support.

This country needs expanded exports and that means agriculture has to play a vital role in our economy. In turn, farmers and ranchers need cooperatives to help them maintain a high level of efficiency in production. I hope you agree and request your approval for the export provisions in the farm credit legislation of H.R. 4782. Thank you for this opportunity.

Mr. DASCHLE. Thank you very much, Warren. Good statement. Virgil, you are next.

**STATEMENT OF VIRGIL L. FODNESS, PRESIDENT, EAST RIVER
ELECTRIC POWER COOPERATIVE, INC., MADISON, S. DAK.**

Mr. FODNESS. Mr. Chairman, Congressman Daschle, I am Virgil Fodness from Lennox, S. Dak. In addition to a full-time farming operation, I presently serve as president of East River Electric Power Cooperative, Inc., at Madison, S. Dak. I appreciate the opportunity to appear before you today to discuss the portion of the bill that addresses the cooperatives' eligibility to borrow from the bank for cooperatives.

The legislation the bank for cooperatives are presently operating under specifies utility cooperatives are required to have at least 70 percent of their voting stock held by farmers and ranchers, while other cooperatives are required to have 80 percent producer ownership. The legislation before you reduces that minimum eligibility to 60 percent for all types of cooperatives. The proposed change will enable more cooperatives to have access to competitively priced money and services available from the bank for cooperatives.

Rural Electric Cooperatives experience eligibility problems primarily because of the area of coverage rule. This rule requires an electric or telephone cooperative to service all residences, businesses and entities in its service area. The cooperative therefore has little, if any, control over the composition of its membership.

I think it is important for you to understand the evolution that has occurred in rural areas from the time that rural utility cooperatives started to form many years ago. When the first powerlines started crossing the rural areas, there were many more farmers and ranchers to be served. Over time production efficiencies have resulted in fewer but larger farms and ranches. The population leaving the farm has swelled towns and cities. The change has not diminished the need for utility services in the rural areas. But the demographics of change is significant. In sparsely populated rural areas it may take only one or two small or intermediate size farms to create some eligibility problems. We cannot deny the residences the benefits and services of the rural electric cooperatives. So just as economic practices and demographics have changed the service patterns of our cooperative in the rural area, we need changes in the operating procedures and requirements of the bank for cooperatives as a primary lender.

As a farmer I have observed another factor affecting eligibility to borrow from the bank for cooperatives; the success of cooperatives for specialized services such as transportation, livestock and processing of agricultural production. We are also experiencing a new regional cooperative structure that includes both cooperative and noncooperative membership. In most cases they are formed to insure adequate supplies of petroleum, fertilizer and chemicals. There has also been interest in forming transportation cooperatives to help combat the ongoing difficulties faced by shippers of agricultural commodities. Once again, we are seeing an evolution in the business structure serving agricultural communities.

Two viewpoints have been expressed about lowering eligibility requirements to 60 percent. One opinion is to keep eligibility requirements at the present high level to assure agriculture retains control of the system. The other opinion has come primarily from REC's whose needs could be more adequately met with even lower than 60 percent producer control. I know that the Farm Credit System has worked with this issue long and hard to make sure our request for the 60 percent requirement is in the best interest of agriculture. I believe that all cooperatives need access to many sources of credit. I also believe that access to the bank for cooperatives produces additional competition, healthy in all forms of business. Cooperatives ineligible to borrow from the bank for cooperatives do not receive the full amount of service and ownership benefits.

As a farmer and an REC director, it has been my observation that the Farm Credit System is committed to one clear objective, improving the income and well-being of our producers of food and fiber. In South Dakota the need for credit for agricultural cooperatives will continue to increase. I believe the eligibility requirements of the banks must be updated to reflect the current trends in agriculture.

I encourage your support of these efforts to provide a more progressive Farm Credit System for agriculture through H.R. 4782.

Mr. DASCHLE. Thank you very much.

**STATEMENT OF JAMES C. HEISER, VICE PRESIDENT, FEDERAL
INTERMEDIATE CREDIT BANK, OMAHA, NEBR.**

Mr. HEISER. Mr. Chairman, Congressman Daschle, I am James Heiser, vice president, of the Federal Intermediate Credit Bank of Omaha. The Federal Credit Bank of Omaha and the 40 associations in this district, which is Iowa, Nebraska, South Dakota, and Wyoming, are currently serving 21,500 farmers and ranchers with \$1.8 billion in loans outstanding.

I appreciate this opportunity to present the Farm Credit Bank of Omaha's views on H.R. 4782, but more particularly on that portion pertaining to financing eligible farmers' and ranchers' processing or marketing needs.

As Mr. Allmendinger stated, one of the objectives of the system is to improve the income and well-being of American farmers and ranchers. We believe that we have been responsive in that respect in financing farmers and ranchers of all types, sizes, and ages. In 1977 we made a study which indicated a little better than 25 percent of our membership of 20,000 borrowers served by PCA's were 35 years of age or younger. And presently 65 percent or 12,500 borrowers borrow \$50,000 or less.

One of the objectives of the Farm Credit Act of 1971 was to modernize and improve the authorization and means for furnishing credit. In this respect, financing of the processing and marketing activities of bona fide farmers and ranchers by PCA's, Federal land banks, is a feature we believe is very important. Under, again, the Farm Credit Act of 1971, the land banks are authorized to make loans to farmers and ranchers for agricultural purposes and other credit needs of the applicant. PCA's are authorized to make loans to bona fide farmers and ranchers and producers and harvesters of aquatic products for agricultural purposes and other requirements of such borrowers.

We believe that Congress, in the law, recognized that credit beyond production needs of farmers and ranchers was necessary to enhance their operations and income, and by doing so the opportunity is provided, such as due processing and marketing, for them to become "price-makers" in many instances rather than "price-takers," limitations now exist wherein the farmer engaged in production, if he is engaged in processing or marketing, cannot obtain credit from the Farm Credit System if those enterprises exceed 50 percent or his throughput of such processing or marketing is less than 50 percent of the throughput of that business. In other words, if it's 40 percent, the PCA or the Federal land bank no longer can lend money to that farmer for that purpose, only for agricultural production purposes allowed.

We believe the Farm Credit Amendments of 1979 and financing of the processing and marketing business of farmers and ranchers would clarify the intent of Congress, and we believe it would relieve the burdens now placed on the farmer and rancher who in borrowing from his own cooperative credit institution and is successful beyond the initial farm production stage, finds himself in a position of not having credit available from such institutions for those purposes. It is our opinion that this is counterproductive to the objective of the Farm

Credit Act; that is, to improve the income and well-being of the farmer and rancher. The reasons are that he is forced to seek for an additional lender of credit. He must deal with two lenders. This can lead to loss of lender experience and continuity in his operations. Present requirements to seek another lender when processing or marketing interests exceed production interests could lead to inadequate credit for either the farmer, the processing or marketing or both because of dilution of security between the two lenders, differing loan administration or different security or loan repayment demands. Also there would be an inability to gain the advantage of obtaining a broader coverage of credit which can limit competitive forces at processing or marketing points resulting in lower prices for producers.

The Farm Credit Amendments of 1979 do provide the limitations that prevent excessive shift of financing by PCA's or Federal land banks to processing or marketing. This is done in that the farm credit district directors who are elected by the farmers and ranchers must determine the percentage of throughput of farmers' or ranchers' own production into processing or marketing. It recognizes that needs will be different across the country and therefore provides that those closest to the grass roots of agriculture will determine what constitutes excessive business interests in processing or marketing which dilutes the farming or ranching industry of one of the sideline investments rather than it being a viable extension of the farm or ranch unit. We believe the amendment will result in a more sound and constructive credit service where these needs exist and will contribute positively to the best interests of farmers and ranchers in rural America.

We appreciate the opportunity to appear before you today. Thank you.

[The attachments to Mr. Heiser's statement are held in the committee files.]

Mr. DASCHLE. Thank you very much. That is an excellent statement.

Roland, you are next, I guess. Glad to have you before the committee.

STATEMENT OF ROLAND A. CHICOINE, DIRECTOR, FEDERAL LAND BANK OF SIOUX FALLS, S. DAK.

Mr. CHICOINE. Chairman Jones and Congressman Daschle, my name is Roland Chicoine, a farmer from Elk Point, S. Dak., and director of the Federal Land Bank Association of Sioux Falls. I farm 1,400 acres in Union County, S. Dak. It's a diverse feed operation, mainly corn and soybeans.

The Federal Land Bank Association of Sioux Falls, S. Dak., makes loans in 9 counties in southeastern South Dakota. This association is one of 39 Federal Land Bank Associations in the Farm Credit history. This district services farmers and ranchers in Iowa, South Dakota, Nebraska, and Wyoming.

I am going to discuss with you the amendment to increase the 85 percent lending limit for Federal Land Banks where the loan is guaranteed by either State or Federal Government. The reason why I am

so very much interested in this legislation is that it reflects the Land Banks' ability to serve young and beginning farmers.

The Federal Land Bank of Omaha has been working closely with the Farmers Home Administration in our 4 States, using simultaneous loans as well as coordination of Farmers Home Administration loans to assist many eligible farmers who would not qualify for lending bank loans. Since the inception of the Farmers Home Administration simultaneous loans program in 1971, a total of nearly 5,000 loans have been made amounting to \$260 million in South Dakota. Of this, 1,379 loans were made in the amount of \$62,900,000. One interesting note about these loans, the age of the borrowers from 1975 through 1979, the average age was 37 years on an all land bank FHA simultaneous loan; where the average age of all land bank loans made in our district during the same period was 45 years. Since the Farmers Home Administration is emphasizing the guaranteed loan program rather than the simultaneous loan program, it appears to me that the service to serve the young and beginning farmer is going to be substantially reduced if the 85 percent limitation presently imposed on land banks is not lifted.

Many of the loans that the land bank has written in cooperation with the Farmers Home Administration were approved at the 90-percent level. Because of the stock requirements on the land bank loans, we were only about to loan 80 percent of the appraised value. In addition to this, there is a 1-percent fee associated with the guarantee that will be passed on to the borrower. It is critical that you understand that even if the land bank were permitted to make these guaranteeing loans at above 80 percent of the appraised value, we still would not make loans where the applicant was not able to project an adequate income to handle the loan repayment in an orderly fashion. In other words, it wouldn't be a soft loan program, but one where progressive operators would get credit even though they had a slim equity situation.

The State of Minnesota also has a guaranteed loan program, and similar programs are being introduced in other legislatures throughout. The land bank would very much like to be in a position to participate in such loan programs as well as the Farmers Home program.

The Omaha Land Bank, my local bank association and myself are very sincere in our desire to assist young and beginning farmers. Therefore, it is our belief the lifting of the 85 percent lending limit on guaranteed loans is very important because we have got to think of our young farmers in the future, where they are going to get financing.

I strongly encourage your support in these efforts to provide improved financial service to agriculture in rural America through the Farm Credit System by the passage of H.R. 4782.

Mr. Chairman, this concludes my testimony, and I would like to heartily welcome you, when you've got time, to come back and shoot good South Dakota pheasant and geese.

Mr. DASCHLE. I want to thank the panel for coming before the committee. As we stated earlier, if you can find the time to stay around, we would like to ask some questions after the testimony has been presented. Thanks again for coming.

Our next witness is Lester Boehmer. He is the Assistant District Director of the Farmers Home Administration. We are delighted to have

Mr. Boehmer. At this time, if he will come forward, we will take his testimony.

Mr. BOEHMER. Good afternoon. I think somewhere along the line we have a breakdown in communication on this. Mr. Weiland, my State director, advised me that I would not be testifying today and that he would personally forward his recommendations pertaining to this loan to you at a later date.

He did say if there are any particular questions regarding the Farmers Home Administration, that he would either get you an answer or he would be in contact with you.

Mr. DASCHLE. I think that he did indicate that he wanted to provide written testimony, but couldn't be here today, and for that reason asked that his testimony be inserted in the record. If there are no objections, we will certainly do that. I appreciate your coming here today. What I would like to do is ask you to come up to the panel discussion following the testimony, if you will, and we will produce some of our questions at that time.

Mr. BOEHMER. I will be happy to do so. Thank you for inviting us.

Mr. DASCHLE. The next witness this afternoon really needs no introduction to South Dakota. He goes way back to the early days of banking in South Dakota. His father and he ran a very successful banking operation in the State. He was a State legislator and is a leader of farm financing in the State. At this time I would like to welcome a friend, and certainly an expert in farm financing, Roger McKellips.

STATEMENT OF ROGER D. McKELLIPS, PRESIDENT, STATE BANK OF ALCESTER, ALCESTER, S. DAK.

Mr. McKELLIPS. Thank you, Tom. Mr. Chairman, Congressman Daschle, I am Roger McKellips. I am president of the State Bank of Alcester, Alcester, S. Dak. I do appreciate the opportunity to testify on hearings that center around agricultural credit programs.

As a smalltown rural farm banker, I can see some ominous signs in the future as to the availability of farm credit, particularly for the smaller farm operator and the young farmer. Although I don't agree with the premise that regulation Q, which places a ceiling on interest paid to savers, could be eventually revoked, but apparently it's going to take place and there is probably nothing we can do to stop it. In my opinion, when this happens, rural areas and, in particular smaller banks, simply are not going to be able to attract and to pay the interest that the major metropolitan financial centers will be offering. As a result of this development, which looks like it is predestined, it will put an additional crunch on the farmer as he tries to secure adequate financing for the ever-increasing cost of operation in agriculture today.

That is why I welcome these hearings, and I wholeheartedly support any of the amendments to the Farm Credit Act of 1971 that will make available to agricultural borrowers meaningful lines of credit. I would particularly encourage and support programs like are now being used by the Farmers Home Administration and the Small Business Administration where they work in tandem with commercial lending institutions under the guaranteed programs. I like to believe that many

farmers prefer to deal, whenever they can, with the local bank or banker. And we also like to think that the local banker can supervise and monitor the financial progress of the farmer as well as anyone.

So I would hope your amendments, particularly with the PCA and the proposed PCA participating certificates, would make possible a standard program of sharing lines of credit between commercial banks and PCA's. I think this would be a valuable tool and one that we are going to need.

However, I think at the same time commercial banks and Federal land banks, the PCA's and banks for cooperatives, all need to occasionally pause and reflect and realize that we all enjoy a special place in our financial structure in this country. Commercial banks—whether we like to admit it or not—do enjoy some special privileges. We are still, although it may not be for very long, the only place you can write a check. We are protected by charters. I think all of us in the commercial banking field should recognize that we do have an obligation not only to provide a safe place for the deposit of money, but we do have a further obligation to try to provide the legitimate credit needs of the area in which we serve.

I think we are seeing improvements year after year. But we still have a way to go. I think in some areas and some communities there still needs to be a considerable amount of progress. Furthermore, I think the Federal land bank and the PCA's should realize that they do have the favored position in our economy because they have, more or less, an unlimited source of funds usually at a cost that is less than other lending institutions can get. And it seems to me, particularly in recent years, the Federal land banks policy has been to make only the choice loans, more or less the cream of the crop, and shy away from anything that wasn't exactly "gilt edged." I am not suggesting that the Federal land bank system should make unsound loans. I think their first criteria of adequacy of collateral must be a prime prerequisite. However, I think in recent years they have placed another prime prerequisite and that is cash flow. And even though the collateral is there and plenty of land security, if the cash flow isn't there, many managers are prohibited from approving this type of loan. And I think there are some instances when they perhaps are not completely fulfilling the obligation and the original intent of the Federal land bank.

There comes to mind two examples. One is a young farmer that is trying to purchase some ground and has not developed a large cash flow. I think in many instances the managers would like the leeway to use their judgment in selecting a few young farmers who they think have potential and be allowed the freedom to make some of these loans. In another instance, and I think we are seeing this more and more, when a farmer approaches his late fifties, early sixties, and although he hasn't been the greatest moneymaker in the world and he doesn't have that cash flow, he still has sufficient collateral in the line of real estate, he is rejected because of cash flow. And I think many managers would like to have that option to make that loan because if they don't, we in the commercial lending field are placed in that uncomfortable position of having to decide whether to move this man, who perhaps is only 4, 5 years away from retire-

ment, move him off the farm into something that he has never done before in his life. I have seen cases of a man 60 years old with an unencumbered 80, probably worth \$70,000 or \$80,000, refused a Federal land bank loan because he doesn't have the cash flow. And I am wondering whether we are justified in making a man of this age, who has done nothing in his life but farm, asking him at that time to find another way to make a living. It seems to me it might be better for society and probably the best for the farmer to let him stay right where he is until retirement.

I would like to emphasize that many managers, I think, of the Federal land bank offices would like to be able to make loans of this type and simply can't because the guidelines set down prohibit them.

So in summary, I hope that you will pass some meaningful farm amendments. I hope these amendments would include provisions that facilitate cooperation and shared lines of credit with commercial banks. I also hope any amendments would allow for management flexibility on a local level in the decisionmaking process. Thank you very much.

Mr. DASCHLE. Thank you, Roger. I would appreciate it if you will stick around.

We have another panel now. Pete Waletich is a hog farmer from the Langford area. Dennis Larson is a farmer from Groton. Pete and Dennis, we are very delighted to have you. I have known these two men for a long time, and think that the perspective we get from farmers who on a daily basis have to work with farm credit is of immense value to the subcommittee. I am delighted that you have taken the time out of your schedule, and I would appreciate it now if you would present us with your statements.

STATEMENT OF DENNIS K. LARSON, GROTON, S. DAK.

Mr. LARSON. Mr. Chairman, Mr. Daschle, my name is Dennis Larson. I am a farmer from the Groton area. I would first like to thank Congressman Jones and Congressman Daschle for bringing this subcommittee to South Dakota.

I would like to address my remarks mainly to three areas: Co-operative eligibility; the 85 percent lending limitation on Federal land banks; and finance processing and marketing activities of bona fide farmers.

I believe that the suggestions to lower the farm member eligibility requirement for BC financing to 60 percent of the voting members or such higher percentage as district boards may establish is a good one and should be written into the new credit act.

I would strongly recommend that the 85 percent lending limitation on Federal land banks should be removed when guarantees by governmental units are involved. Guarantees by the State governmental agencies is an area that I feel should be explored fully, especially for young starting farmers with limited resources. With the use of tax-exempt bonds, the interest cost could be greatly lowered to these young farmers.

Another area where the guaranteed loans should be used is when farms are sold on contract for deed or notes or mortgages from the

sellers. I also feel an attractive tax credit system should be set up if a landowner sells his farm to a young farmer, if the landowner agrees to sell at a fair price and finances 71 percent of the selling price on a long-term contract for deed or note and mortgage. This type of system could have many benefits for both the buyer and the seller, and go a long way in keeping the control of farm land in the hands of the family farmer.

The idea of Federal land banks and PCA's should be able to finance processing and marketing activities for bona fide farmers is a good one and should be written into the law. Marketing is one of the largest problems farmers have today. And anything we can do to improve marketing could greatly increase farm income. Thank you.

Mr. DASCHLE. Thank you, Dennis.

Pete, you and I have corresponded. We have talked a lot about things, and I have been looking forward to having your testimony this afternoon. I appreciate your time right now.

STATEMENT OF PETER H. WALETICH, LANGFORD, S. DAK.

Mr. WALETICH. I would like to thank Congressmen Daschle and Jones for giving me this opportunity to appear before you today. Since Congressman Daschle asked me to testify before the House Agriculture Committee I have done some thinking on what I should say.

First of all, I would like to give you a short rundown of my background. Our farm consists of 1,970 acres of which 190 acres are rented. It is located 15 miles from Langford, S. Dak. We farrow between 1,000 and 1,200 pigs per year and feed out between 300 to 400 of the pigs farrowed. We also have about 75 stock cows that are calved in the spring of the year and the calves are sold in the fall. We put in about 800 acres of wheat, barley, oats, and rye. The remaining acreage consists of pasture and hay land.

My family work force consists of myself, my wife, Lorraine, one daughter and two sons.

The main problem I have run into this last year is inflation. First of all, inflation is good in some aspects and pretty detrimental in the other. It makes some rich and some poor. In my case I am not sure which way it went. When I see my banker, he tells me my net worth is going up each year mainly due to the inflation on my land. But, on the other hand, our products we sell have not kept up with the inflation.

Let's take a look at the hog situation. Roughly figuring we lost about \$20,000 just on the hogs we raised this year by the reduced hog prices over the last year. Along with this, look at the inflationary price of our fuel we will be needing this coming year.

When we started farming in 1968 we purchased an 820 John Deere tractor which used 2 gallons per hour that cost 17 cents per gallon or a total of 35 cents per hour. I hired a man to run it for \$1 per hour which means in 1968 I could run a tractor in the field for \$1.35 per hour. Since then we purchased a larger tractor that burns 7 gallons per hour at a cost of 90 cents which comes to \$5.60 per hour for fuel. This year I have to pay \$3.60 for a man to run the newer tractor; \$5.60 for fuel plus \$3.60 for labor amounts to \$9.20 as compared to \$1.35 in

1968. The difference in price is \$7.85 per hour more just for fuel and help. A 10-hour day amounts to \$78.50 more per day.

When purchasing this newer tractor I had great hopes of paying part of it with some of the profits from the pigs, but the way the prices on hogs are today, it doesn't paint too bright of a picture.

I have got some reserve grain to sell, but the elevator man says he can't take it because of the lack of storage due to the strike at Duluth and also because of the boxcar shortage.

My next step was to check with my friendly banker to see what can be done about paying the bills this fall. I asked him for his thoughts on farm credit. This is what he told me: that the funds available are getting scarce. Some of the problems are caused by an excessive number of regulations. Competition for funds comes not only from other banks in his area, but also from the Government. Government securities can be obtained at competitive rates with merely a phone call.

Savings and loan associations are given an edge by law in that they can pay a little higher rate on savings. Savings and loan associations never have been a prime provider of credit to agriculture in any area of the country. So every dollar which should have been saved in the community bank that goes to the saving and loan never gets funneled into that community's economy. We then all become losers since the old saying remains true, "It takes money to make money."

Besides this, the banks have lending limits as to how far they can go with an individual. Well, once you get to that point, where do you go? You can go to the Federal land bank, PCA, FHA, or others. Now, here's a place where you have to kind of have to sit back and ask yourself what should I do. Here are some of the alternatives: First, I can remortgage my land so I can keep on buying this expensive machinery, fuel, repair bills, and whatever else comes along to run a farm so that someday my daughter and sons might have a chance to farm so they can produce food for our tables in the future at a reasonable price; second, I can throw up my hands and say the hell with it, why fight it. Hang up a sale bill, sell out and take the profits, if there are any left over, and invest them in the money market which today is over 10 percent interest. I believe. That's a lot more than you can possibly make trying to operate at today's prices.

What really makes me wonder is, who is going to be doing the farm work and producing food for our tables 10 to 20 years down the road.

Since we started farming in 1968, nine farmsteads in our township have either sold their land or have rented it out. Now, remember, a township is a 6 by 6 mile area or 36 square miles, which is not too big an area to be able to afford to lose nine families. There are another three families that are about ready to throw up their hands and say why fight it.

I have heard rumors that even the floorsweepers are getting over \$8 per hour in Duluth that were on strike. When you hear this, you kind of wonder why am I out there trying to raise wheat for \$4 per bushel, rye for \$2, barley for \$1.80 and pigs for 35 cents per pound.

If we are going to get this country back on its feet, we have all got to pitch in and try to work together for the welfare of all mankind. Like President Kennedy once said, "Ask not what our country can do for you, but what you can do for our country."

We have to get some incentive to work for, especially for the young farmers. I hate to see the day when we can say our family-type farm has become extinct.

Here are a few items that I feel we can do to help these young aggressive family-type farms stay alive and produce food that all Americans can be able to afford to eat. One way I would suggest is that by keeping this interest rate the same for everyone. It seems to me we are always looking out for the underprivileged. In some cases it pays to goof off enough in order to get down to that level where interest rates would be lower for certain individuals.

I would like to see a system set up that would level some of the highs and lows out of our marketing system. It's pretty hard for both the lender and the borrower when the income fluctuates by one-third in one year's time.

In summary, I would like to see some sort of a system set up that would give an incentive back to the working person who really wants to go out in the world and produce.

I thank you.

Mr. DASCHLE. Thank you very much, Pete and Dennis. I appreciate your testimony very much. In just a moment we will be bringing you back to ask some questions.

Our last witness certainly in the Aberdeen area needs no introduction. He is a leader in insurance and in the whole area of insurance business and knows rural people as well as people in the urban areas. Karl Graeber is the president of the Independent Insurance Agents of South Dakota. I believe he is going to be accompanied by Roland Benson, the executive vice president. We will ask you to come up to the table and let us hear from you.

STATEMENT OF KARL P. GRAEBER, PRESIDENT, INDEPENDENT INSURANCE AGENTS OF SOUTH DAKOTA, ACCOMPANIED BY ROLAND A. BENSON, EXECUTIVE VICE PRESIDENT

Mr. GRAEBER. Mr. Chairman, Congressman Daschle, thank you for the opportunity to be here this afternoon. My name is Karl Graeber. As you indicated, I am president of the Independent Insurance Agencies of South Dakota. Roland Benson, who is our executive vice president, will make our presentation. We combined our thing together so it wouldn't be quite so long.

So with that, I will turn it over to Rollie.

Mr. BENSON. Thank you, Karl.

I, too, want to thank both of you for allowing us to be here today. We have been told that PCA's were established by the Farm Credit Act of 1971 primarily to serve the credit needs of farmers. The act also permits them to sell certain limited lines of property and casualty insurance, but only if the need for such service has been established. Our association is quite concerned about this because the Farm Credit Administration has permitted these cooperatives to enter the property casualty insurance business without providing persuasive evidence that similar services are not being provided adequately by others in the community. There is also controversy as to exactly what types of property casualty insurance coverages these cooperatives can be permitted to sell upon demonstration of need.

There is specifically language in a conference report to the Farm Credit Act of 1971 that indicates that it was not intended for these cooperatives to sell liability insurance or insurance on any property that was not collateral for a loan. In spite of this, FCA's are selling farmowners and homeowners packages, and as one solicitation put it, practically everything with the exception of auto.

We are not against fair competition, but PCA's enjoy several competitive advantages over unaffiliated insurance agencies. They have detailed knowledge of a client's financial profile and existing insurance coverages and expirations. They are able to reduce costs with the income generated by insurance sales and pass those overhead savings on to their customers through reduced loan rates. Finally, they enjoy a number of local and State tax advantages and can borrow money from the Federal Intermediate Credit Bank which are exempt from Federal income tax.

An independent agent has none of these advantages. For these reasons Congress was careful to limit PCA insurance agents to insurance on collateral for loans. Moreover, this insurance coverage was offered only after the Farm Credit Administration determined that adequate insurance coverage was otherwise unavailable to PCA customers. PCA insurance activity in the three pilot program indicates that these restrictions have not been observed. I have this in a report from my counterpart in Arkansas. His name is Zeno. He is the executive vice president of the Independent Insurance Agents of Arkansas. Just last week he phoned my office and asked me if I was going to attend this hearing. He said, if at all possible be there and tell these people what is going on in the insurance business with these PCA's.

As a result of this, we would recommend, one, that the current Farm Credit Administration pilot project for PCA insurance activities not be expanded; and two, that Congress require the Farm Credit Administration to establish formal, explicit rulemaking procedures for determining a need for PCA insurance activities and specify locations before approving such activities. We believe that the goals of improved insurance service for farmers, if found to be necessary, could better be obtained by the PCA's instituting a systematic program of providing printed information and materials to banks, to co-operatives and farmer members, young farmers on how best to meet their insurance needs using existing insurance sources. Such an approach would be then more in keeping with Congress initial intentions.

The report of the Commission on Agricultural Credit, whose recommendations led Congress to permit farm credit institutions to undertake financially related services, specified with regard to such services that "The availability of competing services through other normal business channels should be recognized, and where they are provided at reasonable cost, the system should not develop competing services, but assist members in the profitable use of such services." We believe this approach would be far preferable to the one taken because it would not result in unfair competition with unaffiliated independent agencies.

To summarize my remarks, we oppose any expansion of the pilot project through which a limited number of PCA's now offer property

and casualty insurance. We support FCA rulemaking that details the procedure for determining a need for PCA insurance activities, and we support further congressional clarification of the kind of insurance PCA's are permitted to offer and under what conditions.

Thank you, gentleman.

Mr. DASCHLE. Rollie, thank you very much. Do you have anything to add to that, Karl?

Mr. GRAEBER. No, I don't.

Mr. DASCHLE. Very good. I appreciate your coming. I think these gentlemen are the last of the witnesses that we have. I would like to ask each of the witnesses who have testified to come up again and sit in the chairs up here in the front, and we will proceed with the second part of the hearing at this point, and that is the question and answer portion. So please come up ahead.

Chairman Jones, I think I would like to pursue as we pursued this morning. You seem to have a good handle on all these issues, and I would like to have you proceed with your questions first and I will follow.

Mr. JONES of Tennessee. All right Tom. Let me say to the panel that I really appreciate the fine testimony given this afternoon. I don't know how it could have been any better. It was excellent testimony and I must admit that I agree with the majority of your philosophies.

I was especially interested in what the banker had to say, because we don't hear from as many bankers as we do from other people, and I really appreciate what you had to say in that regard.

I want to emphasize, Tom, that I think this hearing has allowed the subcommittee to get closer to the grass roots of some of our problems, more so than we can get in Washington, D.C., when you come or somebody else comes in your place. I am just pleased to no end with what the various groups had to say.

Mr. McKellips, I'm going to reread your testimony again because I did not digest all of it. I did get one emphasis that I think you made that I can wholeheartedly agree with you on, and that is that the FLB's are not as aggressive as they should be. An experience of my own in the area I represent, they do a marvelous job. But I do think that we could update some of the things they have been doing.

I was especially pleased to see the panel stress a desire on the part of the FLB's removing 85-percent appraisal and moving on up in the valuation of our land. I think all of our records show, I think I read this in some reports last week, that one of the best investments in the whole world today is farmland. I was a part of the 1971 update of the Farm Credit Act when we moved from a low figure up to as much as 85 percent of the value of the land. I would like to see a move on further because I see no way that they can lose money in that regard as long as they are doing the appraisal as they should, and they will.

Tom, I have no specific questions to ask because it's a little bit of a rerun of what we got yesterday. There is no use to go into repetition.

Mr. Benson, do you know whether Mr. Zeno is going to be in Memphis for the hearing tonight?

Mr. BENSON. I would suspect he would be as long as he was so concerned that I attend this one.

Mr. JONES of Tennessee. It might be a good idea for you to return a call to him and insist that he come. We will be there Thursday and Friday in the Federal Building. I am sure he knows that.

Mr. CASHDOLLAR. He is on the schedule.

Mr. JONES of Tennessee. Good. You made a statement that I want to see if I understand. You said you oppose any further expansion of the pilot projects of PCA. Do you mean by that that you support the three they have? Would you like to see them all relaxed?

Mr. BENSON. We would like to see them all relaxed. I realize that is probably a hard thing to do. Right now we are mainly concerned with not expanding the program.

Mr. JONES of Tennessee. It is strictly a pilot program and they admit that, of course. I have to tell you in all honesty, that I have been on your side and against their position on the insurance part of what they are doing today in the three bank areas. I believe there are three that are doing that. I don't think that they need to be in the insurance business. I told them so a number of times.

Mr. BENSON. Thank you.

Mr. JONES of Tennessee. I hope that we are able to correct that. I suspect that the subcommittee, if necessary, will recommend to our full committee that we get a little tougher with some of the report language than we have now. Now, we may not. I don't know. I can't guarantee that. But that, at least, is my position because I am for them all the way writing the credit life insurance and all of that. There is no problem there at all. And I think that is what they should do. Getting out into another field that is a part of another profession is something that I really object to as a member of this subcommittee.

Mr. BENSON. Thank you, Mr. Jones. That is really all that we could hope for at this hearing here was that we could get your support in our thinking along those lines also.

Mr. JONES of Tennessee. In turn for that, I want you to do something for me. Our subcommittee has a bill, it's going to be up in a few days, H.R. 4119, Federal Crop Insurance Act.

Mr. BENSON. I am aware of it.

Mr. JONES of Tennessee. I want you to all lay off us now.

Mr. BENSON. I am afraid you are too late, Mr. Jones.

Mr. JONES of Tennessee. But I must say and admit to you in all honesty, I think you are wrong when you are fighting that bill. I don't think you know what you are doing. I am really honest about that, because if you sit where we do, not as Members of Congress, but as people who are trying to formulate farm policies for the future. I think you would have to agree that the Federal Crop Insurance bill, and I don't need it in my district because we don't have those disasters that a lot of people do over the Nation, and I am thankful for that, but I think that you have to agree that the Federal Crop Insurance program as designed will benefit you as an insurance representative. You will be selling it, if you want to. In addition to that, we will be building for disasters with the premium incomes that we have. I don't think there is any doubt in the world that the private agents can participate in the subsidy too.

Mr. CASHDOLLAR. Yes. Through the reinsurance program or selling on a commission basis.

Mr. JONES of Tennessee. I wish you all would look a little closer, give a little more examination as to what you are doing.

Mr. BENSON. Mr. Jones, I think that you are probably right in what you are saying, in what you believe you are saying, I guess I should say. I think probably the concern of our association more than anything is that the flood insurance program started out this way, too, with the private industry cosponsoring the program with the Federal Government. As a result of this, it only took 1 or 2 years before the Federal Government took over the whole thing and the private industry was left out completely. I think this is probably our main concern on the program.

Mr. JONES of Tennessee. I don't think you will have that problem. We have had crop insurance for 38 years already. We just haven't had it in as broad a way as this bill proposes. I think that you will find that you won't be dealing with the same crowd with flood insurance that you are dealing with with farm legislation.

I believe that is all I have. I just want to thank everybody for the good set of hearings we have had. You farmers took off and took the time to come down here from what you should do, but I'm sure glad you didn't stay home.

Mr. DASCHLE. Mr. Chairman, I want to thank you for coming.

I would like to follow up just on a couple of remarks that you made and then pursue just a couple of questions. But I would like to tell Karl and Rollie from the point of view at the other end of the table here, the chairman, of course, is at the head of the table and he speaks with a great deal of authority in our subcommittee. But I would like to think that those of us freshmen on the committee also speak with some authority, and certainly have a vote in these issues as well. I want to assure you that my vote lies with the chairman when it comes to expanding insurance coverage. I don't think that is their business. I think that is your business and I would like to see that happen. I think it will happen in talking with other members. But in any case, I appreciate having your thoughts because I can assure you of this, we are going to be sharing them with other members of the committee. And before it's all over with, they are going to have quite a bit of comments from me on particular issues that relate to insurance and the PCA's. So thank you very much for giving us the benefit of your thinking on this.

I would like to ask those that have made comments with regard to the guarantee loan program and how you think it affects young farmers or new farmers, do you not believe that one of the concerns that people entering agriculture have is with interest. It goes beyond just being able to provide security or some kind of a loan arrangement, but it deals with the whole issue of whether or not an individual can pay for the high interest. Yet it seems from the testimony this afternoon that guarantee loan programs alone will help young farmers. I would just like to have you pursue that a little bit more in detail, if you could.

Mr. ALLMENDINGER. At the present time when you talk about high interest, the FmHA interest rate now has been raised considerably. I don't know really what it is. Do you know what it is, Jim? Nine percent, about 9 percent. And so there isn't going to be a lot of savings

insofar as the interest rate is concerned. One real advantage, as I see, though, that it has is that the Federal Land Bank Association can just take care of the whole loan with the Government coming in and guaranteeing that portion of it that the land bank cannot carry. And it makes a much smoother operation and a much smoother loan to work with where you don't have another lender involved. And I think it would be very helpful to a low-equity farmer to have one place to work instead of several, and it would make it much smoother and a much better credit package.

Mr. DASCHLE. Roland, most of your testimony was related to that. I would be interested in your thoughts on how you think interest relates to this whole problem.

Mr. CHICOINE. We would like to go back to when we had cheap rate interest with FHA, way, way back when. But we can't go back. We are going forward. It's going to be tough for these young farmers. We don't like to call them, necessarily, young farmers, but beginning farmers to get started in this day and age with the way things are bouncing around. But it will be a big help if we can get all the money in one spot, like Leo says, because generally speaking FHA is always out of money and you are, well, 6 months down the road. And by that time somebody else has picked up the piece of property and so then you have got to wait another year. Well, then no property comes up. So there you sit. And so it would be a big advantage for the young farmers if he could get all his credit right there that is needed at the present time.

Mr. DASCHLE. Virgil, you were talking about the area coverage rule and how problematic that is for REA's. What I would like you to do is just describe in a little greater detail how the area coverage rule would be affected in a favorable way by dropping the requirement from 80 to 60 percent. That is not clear in my own mind as to how that would be a positive thing for you.

Mr. FODNESS. It's a changing membership. Years ago it was practically all farmers. And in the area I live, which is just south of Sioux Falls, our local distribution system bumps right up to Sioux Falls. And in fact, Sioux Falls has taken part of our system into their city limits, the residential growth is in that direction. So in our local system we are getting a lot of nonfarmers there that weren't there before, and I think we are probably more interested on a regional basis. Basin Electric at Bismarck, N. Dak., furnishes about 55 percent of our energy. And they are very capital intensive, and to qualify for various types of loans they also have to meet this standard. And they serve farmers, industry, small towns, and the like. So it covers a big area. And if it was lowered it helps a lot of them meet that qualification for membership.

Mr. DASCHLE. I notice that the Farmers Union supported lowering it and I think, if I recall, most of the farmers do want it lowered, which surprised me a little bit.

Mr. FODNESS. I think they also recognize the changing membership. It's much different than it was years ago. Whether it's good or bad, that is the way it is, and that is the way you have to try and run your business.

Mr. DASCHLE. Roger, I was going to ask you about this Regulation Q in terms of what it has meant to you personally in cost and how it

affects small community banks. We talked about it on a personal basis, and I just think for the committee's interest this would be a very good time to just, if you could, just elaborate a little bit more on what it's doing to you personally, because I understand it's causing you a tremendous amount of additional cost in administration.

Mr. McKELLIPS. It is. Regulation Q and, of course, your truth-in-lending law along with it, it's just inconceivable. The interpretation that the regulatory authorities have given to that truth in lending and Regulation Q, isn't what you people in Congress intended at all, I am sure. You have got an overkill that you just can't believe. For instance, to figure an interest rate correctly they have got a formula that includes 90 algebraic equations that you would first have to put in your calculator to make sure you have got it right. You know, a smalltown bank is lost.

It does add to the cost. And we are spending more time, I think, on regulations trying to see that we are in compliance than we are serving our customers. It's frustrating especially for an older banker.

Mr. DASCHLE. Isn't this retroactive, too?

Mr. McKELLIPS. Yes. And you know, we have had several compliance examinations and now they are going back—and we passed those, apparently, and now they are going back to 1974 and making us—determining if we have got to refund any number of claims on that thing. But regulation Q, I think, is a very serious thing for farmers in small towns. Apparently they are going to take off, and I don't know, Chairman Jones, do you agree with that premise, that they are going to lose regulation Q sometime, this ceiling on interest?

Mr. JONES of Tennessee. I would imagine.

Mr. McKELLIPS. And if that happens, it looks to me like smalltown banks are going to have a hard time competing for funds. And when you don't have loanable funds, there's just no way you can loan money. And it scares me because your aggressive financial institutions, your financial institutions in trouble, they are going to pay anything they possibly can to get the money to see it float, and I think you have got real dangers in that thing. But it looks like it's predestined to happen and we are probably going to have to live with it. But we will have to be probably buying money is what we will have to do to get loanable funds for the farms. And, boy, I tell you, it's going to drive your cost up.

Mr. FODNESS. I would like to make one more comment. I suppose a lot of people are wondering what rural electric interests are here. The interest rate on Basin Electric Plant by 1982, it's estimated that will be our largest single cost, that will be higher than the coal. That is hard to believe, that it's going to be higher than the coal to generate the costs. So we like the competition, and the more people that we are able to borrow from, the better it is.

Mr. McKELLIPS. I might say, Tom, the sad part of it is the farmer is one of the few industries that can't pass their interest cost on. Most everybody else can. But they don't set the price and that is what makes it doubly tough.

Mr. DASCHLE. I am out of questions. If anybody has any other comments or questions that they would like to pursue, this is the time to do it. Yes.

STATEMENT OF DON BRAKE, WORTHINGTON, MINN.

Mr. BRAKE. Mr. Chairman, Congressman Daschle, I am Don Brake, farmer from the Worthington, Minn. area. I am a Farmer Union member, Production Credit Association member, and Federal Land Bank member.

I would like to comment about the property insurance. It was implied that the PCA insurance is not a private insurance. I guess I don't understand that. PCA's pay Federal and State income taxes on every dollar profit that they make from selling insurance, just like the independent agents. In addition, what income is left after taxes benefits all PCA borrowers by reducing the cost of borrowing the money. PCA's in the setup farm districts have about \$1 a loan for every \$2 of other lenders in agriculture production loans. If the PCA's start telling farmers what to do, and they don't want to do it, the farmer will take his loan elsewhere because he has a right to do that. The members will vote out the PCA directors and the employee involved will lose his job. As a result, I don't believe farmers will be pressured into buying PCA insurance. In my community it seems that after the insurance is sold, many times the service almost stops. And when a loss occurs, a farmer finds his coverage has been inadequate. That is not convenient for the farmer. Last year our area experienced several buildings destroyed by weight of snow. These farmers were generally uninsured because the present insurance industry does not offer and promote coverage. Thank you.

Mr. DASCHLE. I appreciate your comments. Any other comments?

A VOICE. Is it not true, Tom, that local banks sell insurance or do they have an agent connected with the bank?

Mr. DASCHLE. Roger, you can better answer that.

Mr. McKELLIPS. I think you have a combination of both. Some banks in small towns, some have independent agents with the main bank. I think in South Dakota it's prohibited in towns under 5,000.

Mr. GRAEBER. Five thousand.

Mr. McKELLIPS. Five thousand. And I guess there is some justified criticism, maybe.

A VOICE. I know several banks in my local area that are selling insurance.

Mr. McKELLIPS. There are a lot of small towns that don't have small town agencies. But on the other hand if they don't, this would be one less employee in the bank.

Mr. DASCHLE. I want to thank each and every one of the members that came before the committee this afternoon. I can't think of a more productive session and I very deeply appreciate your all taking the time and traveling to Aberdeen. It certainly means a great deal to me and this information will not only be used by Ed and I, but certainly by the other members of the committee in determining our action on the amendments before us.

So I reiterate my thanks to you and my appreciation, and again, to the chairman of the committee for coming not only from Washington, but from Tennessee to consider the views of South Dakotans on these issues. Once again, thank you.

[Whereupon, at 3:30 p.m., the subcommittee hearing was adjourned.]

[Additional material submitted to the subcommittee follows:]

Statement of the North Dakota
Association of Soil Conservation Districts
to
The Conservation & Credit Subcommittee
House Committee on Agriculture
Aberdeen, South Dakota Field Hearing
by Robert Gilje, President

Thank you for the opportunity to present our statement for the record. Because of the press of my harvesting operations I could not come to this hearing personally so we have asked our good friend and neighbor to the south Wilbur Blumhardt, Bowdle, South Dakota to present our statement.

Members of the Conservation and Credit Subcommittee you are dealing with a subject today that needs an in-depth look and then action so that conservation programs can be put on a permanent basis. For too long they have been treated with an on-again and off-again attitude. Farmers and conservation districts need to be able to look at our cost share incentives program with some degree of permanence if we are to accomplish the goals we have established.

Today we are faced with many new environmental pressures. Some problems the environmentalists have brought out are real but many are imagined. The majority of our conservation districts' programs are aimed at working with the private citizens.

This leads me to a short history of 4 programs in North Dakota.

1. The Great Plains Conservation Program

The Great Plains Conservation Program has been very popular and very helpful in getting conservation on the land. More than 6000 North Dakota landowners have signed contracts covering more than 8,000,000 acres. The program has served the landowners who needed and desired to carry out a long term soil and water conservation program involving establishment of enduring practices with cost sharing. Many annual management practices are carried out as a part of the landowner's contract obligation without cost-sharing.

Total dollar obligations in North Dakota are over 16,000,000. Only 70 GPCP contracts were signed during 1979 because of funding limitations. We had more landowners wishing to participate. There is \$95,000 of unfunded contracts and modifications in the

SCS office now. Thirty eight of our 53 counties are in the Great Plains are in North Dakota.

Earlier this year we told our Congressional delegation, "For a total program, at this time, GPCP would have to be given top billing." We also indicated the funding levels were usually too low and in general SCS does not have enough people to adequately handle this and all other areas assigned to them. This effects what the Soil Conservation District can accomplish. It does us no good to set goals and priorities if no one is available to service the problems.

2. The Waterbank Program

The "idea" for the Waterbank Program originated with the North Dakota Association of Soil Conservation Districts. It was not easy to get all agencies such as farm groups and wildlife groups to agree on the proposed legislation we offered. There was much give and take before we agreed on what was to be presented. In North Dakota ASCS told me that as of May 30, 1979 farmers and ranchers had placed 64,425 acres of wetland and 163,503 acres of adjacent land for a total of 227,931 acres in the Program. We believe this has indeed given the farmers a viable and practical economic alternative to wetland drainage.

We have recommended that the land capability classes be used to determine annual rental payments of adjacent land when an agreement without that provision is renewed. Some older contracts now carry a rather low single payment rate for all land classes. Producers will probably not renew contracts unless they are adjusted to current rental payment rates. We further recommend that all adjacent land rental payments be adjusted every 5 years. The later then would be more comparable with other cash rates being paid.

North Dakota has and can use about \$4 million each year for this program. This is because we are noted for raising much of the United States waterfowl in this flyway.

Earlier this year we told our Congressional members and we wish to relay the same to you, it is difficult, if not impossible, to name another program as good for upland game and waterfowl. This is because the farmers like the permanence of a 10 year contract that can be renewed and because it still leaves them with control

of their land and a clear title to their land. We support the Waterbank and its principle. This concept will allow wetlands to remain in private ownership while recognizing public benefits through public expenditures.

3. ASCS Long Term Agreements

The long term agreements were signed in North Dakota during 1979 fiscal year. Nearly \$600,000 was obligated. SCS prepared conservation plans of operations and ASCS is handling administration of agreements.

A problem we feel is the \$3500 limit per year. This is especially true where expensive practices are needed such as animal waste treatment systems.

Long term agreements probably will result in more conservation on the land per federal dollar invested simply because as in Great Plains farmers will adopt other management practices so in the end you get more conservation on the land.

4. ACP Practices

One practice alone in North Dakota has changed the face of our state. Where we were a treeless windblown prairie during the dust bowl, today we have protected many areas with trees. This has benefitted many people - the hunter - the farmer - the bird watcher and any who enjoy nature. It has offered protection from snow storms and dirt storms. Trees have protected farmsteads, livestock, and been an energy saver. The ACP cost share program can take credit for much of this landscape change and beneficial use trees have provided. We have a good example of what taking away this incentive did in our state for not too many years ago cost sharing money was not made available and our tree planting took a nose dive and it has never fully recovered since. To us this points out the value and need of incentives when farmers and ranchers install practices that benefit all citizens. In the early 70's we planted 8 1/2 to 9 thousand acres of trees each year. Then when cost-share was removed it dropped 5.4 thousand acres. In tree numbers this was a drop of about one million trees each year. Actually our records show the drop to be from 4,061,381 to 2,747,291 trees.

This has quite an impact on the program for trees usually were only a small part of total conservation program that our Soil Conservation Districts promote. I use it here because we have the figures readily available that shows the effect. I have other conservation practices, as do other North Dakota farmers, that have been put in because of a cost share incentive so we feel they are very important and should be continued.

Lately we have been seeing new conservation ideas surface - some good and some bad. SCS has been assigned new duties with some of the new legislation. At the same time these assignments are made, districts usually are told we are going to have less technical assistance from SCS because you have cut back manpower needs. You know and we know this will not work for long. You can load people down so long then efficiency and effectiveness diminish. We are sure if Congress or the Executive Branch takes on new jobs their staff will increase to accommodate them. We feel SCS, who supplies us the technical help, are similar and should be staffed to handle the work load assigned them.

We also have been hearing rumors that the budget makers feel the federal government has little responsibility for helping private landowners with their own conservation problems. Soil surveys are a good example of this. In our state the state provided additional money for Soil Survey work. The purpose was to speed up the work because so many agencies and groups as well as citizens were in need of the information these surveys provide. We sold our package to our state legislature that if the state assisted it would help considerably in speeding up the job. We no sooner had help from the state and the federal government starts saying since the states are helping we don't need to. Our position is that it was to be a team effort. We must be able to count on the federal government to play their part on a continuous basis.

Soil and Water programs are essential, not only to our quality of life, but to the economic stability and prosperity we seek. The willingness of conservation districts to implement conservation programs does not, however, relieve the federal government and its agencies, such as SCS, of the responsibilities for funding and administering active, practical, effective programs. Our efforts do benefit all citizens.

STATEMENT OF DONALD L. HOVEDICK, FEDERAL INTERMEDIATE CREDIT BANK OF OMAHA

Mr. Chairman and members of the subcommittee, I am Donald L. Hovedick, President of the Federal Intermediate Credit Bank of Omaha. The Federal Intermediate Credit Bank of Omaha obtains loan funds for and provides supervision to the 40 Production Credit Associations in the Eighth Farm Credit District consisting of Iowa, Nebraska, South Dakota, and Wyoming. The Production Credit Associations in the Eighth Farm Credit District are farmer/rancher owned cooperatives which currently have over \$1.8 billion in loans to 21,500 member borrowers. The twelve Federal Intermediate Credit Banks and the 429 Production Credit Associations are part of the Farm Credit System together with the Federal Land Banks, the Federal Land Bank Associations, and the Banks for Cooperatives. The Farm Credit System provides \$50 billion or approximately 1/3 of our nation's total agricultural credit. This is done entirely in the true cooperative spirit without the use of tax funds. As a representative of the Farm Credit Banks of Omaha, I appreciate the opportunity to present our views concerning H.R. 4782, the Farm Credit Act Amendments of 1979.

This legislation represents the consensus effort of the entire Farm Credit System. The Farm Credit Act Amendments of 1979, H.R. 4782, is a unified product of the Farm Credit System. We urge passage of this legislation as it was introduced and also urge this subcommittee to use its authority and influence to prevent amendments to the legislation.

It is important to understand the Farm Credit Acts Amendment of 1979, H.R. 4782, does not contain any provisions relating to the credit related services offered by the Associations to their members. These services include an electronic farm recordkeeping program and credit related insurance services.

We are aware some organizations wish to remove the Farm Credit System's existing authority to make available insurance services to member borrowers, as provided by Congress in the Farm Credit Act of 1971, by amending the Farm Credit Acts Amendments of 1979, H.R. 4782. Insurance is an integral and important part of the credit related services provided by the Farm Credit System to its farmer and rancher member borrowers.

It is important to understand all credit related services are completely optional to the members.

Insurance offered by a Farm Credit Association may only be purchased by member borrowers. In the event insurance is required as a loan condition, the member has the option to purchase such insurance from any available source. We go to considerable lengths to assure the optionality.

The costs of farming, as in any business, have increased dramatically over the years. Prudent financial management, applicable to business, industry, government, and of course, farming, dictates the need for members to examine all business risks. In examining insurable risks, decisions must be made regarding what is the probability of risk, what amount of losses can be absorbed by the enterprise, and what risks should be insured. Production Credit Associations in the Eighth Farm Credit District assist members with their risk management programs by offering three insurance programs.

The greatest threat to the farm is the loss of the operator. Credit life insurance has enabled many operations to continue as family-owned units after the death of the operator. Credit life insurance benefits have reduced the need for the insured's survivors to sell real or personal property to meet final

expenses. The credit life program provided by Production Credit Associations in the Eighth Farm Credit District has returned 90 cents of every premium dollar to member-borrowers either directly or indirectly over the last seventeen years.

Another threat is the member borrower may become disabled. Farming is the third most hazardous occupation. Credit disability insurance provides funds for replacement labor and hospitalization expenses. This coverage has prevented the unnecessary accumulation of additional debt to the disabled farmer or rancher. In 1978, one out of every six credit disability policies issued by Production Credit Associations in the Eighth Farm Credit District resulted in benefits being paid to members.

The loss of a crop resulting from hail could be catastrophic to many farmers. This loss would include both production expenses and potential profit. Crop hail coverage provides protection against these losses. Last year, one out of every three policies sold by Production Credit Associations in the Eighth Farm Credit District had at least one claim.

The insurance programs are beneficial to the member borrowers of the Farm Credit System in other ways. Insured loans reduce the risk of losses to the Farm Credit Association lender. Reduction of loan losses reduces the cost of credit for other member borrowers. No employees receive any commission from nor is their compensation based on insurance sales. The Farm Credit System has strict regulations, vigorously enforced, concerning employee compensation and the sale of insurance. Any income from insurance is used to defray part of the Association's general operating expenses. Again this results in a lower cost of credit to all member borrowers.

Although there have been innuendoes of coercion concerning the sale of insurance from some outside the Farm Credit System, we have investigated those few instances where a formal complaint has been filed. After rigorous investigation of each and every complaint, we in the Eighth Farm Credit District are proud to state no charge has ever been substantiated.

The insurance programs offered by the Farm Credit System have led to greater competition in the insurance industry. Nationally, the Credit Life and Credit Disability programs are underwritten by eleven insurance carriers. Crop hail insurance is underwritten by twenty-five insurance carriers. These programs are in competition with the agency forces of these same carriers. The focal point of the competition is service. The Farm Credit System has both the desire and the ability to provide excellent service. Opposition to the Farm Credit System's insurance programs is opposition to the spirit of free enterprise--the backbone of the very foundation of our country.

As stated previously, H.R. 4782, the Farm Credit Act Amendments of 1979, does not contain any provisions regarding the credit related services offered by the Farm Credit System. There is no intent, either implicit or explicit, to expand the existing insurance service authority now authorized by Congress under the Farm Credit Act of 1971. Therefore, I urge you to preserve the authority of the Farm Credit System to continue offering insurance services to member-borrowers on an optional basis by passing H.R. 4782 without any changes or amendments.

Thank you for the privilege of presenting testimony concerning the Farm Credit Acts Amendments of 1979.

Jrs/28a

STATEMENT OF JOHN F. AHELS, MARSHALL COUNTY COMMUNITY COMMITTEEMAN, BRITTON, S. DAK.

I would like to submit the following statement in the record of your subcommittee's hearing concerning soil and water conservation.

I am a farmer from Marshall County, South Dakota. I have farmed for many years and am old enough to remember the 1930s in this state.

I have seen many changes take place in this part of the state concerning the land and soil. Many acres of trees, both single row and multiple row shelterbelts have been planted in our area. However, many more are needed and some older trees need to be replaced.

There is a wide variety in the land terrain and soil structure in our area and even in Marshall County itself. Some land is almost perfectly level while other land is rolling and quite hilly. Soil varies from very sandy to clay or gumbo. Due to the wide variety, a number of different conservation practices are needed to conserve our soil and water. For instance on our level sandy soil, we need to plant trees, stripcrop, seed permanent cover, provide water to distribute grazing to protect cover, etc. On the rolling or hilly land we need to have terraces, contour farming, grassed waterways, permanent cover, etc. to protect our land.

I feel the Agricultural Conservation (ACP) has done a very good job to conserve our soil and water since its inception in the 1930's. However, I also feel that there is much work left to be done if we are going to conserve enough soil and water for our children, grandchildren and future generations.

Under ACP, the farmer and the government share in the cost of doing a number of different conservation practices. The practices are selected on the county level to solve local problems and the program is administered by County ASC Committees who know the conservation problems in the county.

Money allocated to fund ACP has remained at approximately the same level for the past number of years. Since the cost of everything including doing conservation work has risen very substantially, I feel that there must be more money allocated for this program or there may not be enough soil left to feed our future generations.

STATEMENT OF DALE QUIST, MARSHALL COUNTY COMMITTEEMAN, LANGFORD, S. DAK.

Why do we need ACP?

To- Bare part of expense
Conserve soil
Stop Erosion
Enhance Wildlife
Stop pollution into lakes and streams

How can we accomplish this?

By- Adequately funding ACP
Encouraging participation in practices that stop soil erosion such as Contour Farming
Encouraging planting of trees and grasses and legumes not only for wind erosion, but also to provide food and habitat for wildlife.
Using terrace practices in hills area of county to stop pollution into lakes and streams

Benefits these practices provide:

- Clean air, and water (lakes - enjoyed by townspeople and farmers alike)
Adequate wildlife for the many sportsman in county to enjoy hunting if the wildlife has adequate food and cover to survive
No soil blowing across to neighbors if proper conservation practices are used
With adequate cost shares, many farmers will utilize practices and perform good conservation and provide good distribution of grazing for livestock, trees for wind and soil erosion and also for wildlife, and other sound conservation measures.

We must encourage farmers all we can, if we are to have enough food and fiber for future generations. We will have to encourage farmers to get marginal land back into grass and out of crop production. With adequate ACP funding, we can do a lot for conservation.

The enclosed pictures speak for themselves, showing how conservation is needed on farms to stop erosion.

STATEMENT OF A. C. BUFFINGTON ON BEHALF OF THE FEDERAL LAND BANK OF OMAHA, FEDERAL INTERMEDIATE CREDIT BANK OF OMAHA, AND PRODUCTION CREDIT ASSOCIATIONS, EIGHTH DISTRICT OF THE FARM CREDIT SYSTEM HEADQUARTERED IN OMAHA, NEBR.

Mr. Chairman and members of the Committee. My name is A. C. Buffington. I am President of The Federal Land Bank of Omaha, Omaha, Nebraska. The Federal Land Bank of Omaha serves farmers and ranchers in the four states of Iowa, Nebraska, South Dakota, and Wyoming. The Bank presently has, through its 39 Federal Land Bank Associations, 64,000 loans with \$3.5 billion outstanding.

I would like to discuss two portions of HR-4782 that would impact on the Federal Land Banks and Production Credit Associations.

The first amendment I wish to speak to deals with loan participation. This amendment would authorize institutions of the Farm Credit System to invest and/or participate in loans with other lenders, both inside or outside the Farm Credit System. For instance, the Land Banks are not presently authorized to invest or participate in first mortgage real estate loans with commercial banks or with other Farm Credit System units (the Federal Intermediate Credit Banks, Production Credit Associations, or the Bank for Cooperatives). If the Land Banks were authorized by the enactment of this legislation to invest and/or participate with other lenders, we could better serve those people who already have a working relationship established with commercial lenders or the other Farm Credit units but where the current lender has an inability (loan limits, lending fund availability, etc.) to serve the full needs of the borrower.

If this authorization were given to the Land Banks, our System would be able to offer a service that at times is badly needed in many parts of the Eighth Farm Credit District. The Eighth Farm Credit District, composed of Iowa, Nebraska, South Dakota, and Wyoming, has many small rural banks. Many of these banks often find themselves faced with credit overlines on borrowers or, as happened several years ago, a severe credit crunch developed which limited the amount of credit available. They often find it inconvenient to work with correspondent banks. Our local Associations would be better able to work with these local commercial banks, Production Credit Associations, and/or other lenders, to better serve farmers and ranchers.

Further, capital requirements for such farmers as beginning farmers and operators experiencing adversity, often are at a level where the success probability is heavily dependent on a carefully designed credit package—a credit package requiring the utmost in coordination and communications between the lenders involved and the farmer being financed. A strong working relationship in such cases certainly adds to the benefit of the farmer. We feel that loan participation will contribute to the further enhancement of this relationship.

This service has been authorized for the Federal Intermediate Credit Bank/Production Credit Association system and has proved to be successful for them and has been well accepted by other local lenders.

I would certainly encourage your support of this needed amendment to assist in the alleviation of any credit difficulties developing in rural America.

The second part of my testimony is in connection with the amendment that would permit "Production Credit Associations to issue participation certificates." Under Part B, Section 2.15(a) of the Farm Credit Act of 1971, "Each Production Credit Association . . . may make, guarantee, or participate with other lenders in short- and intermediate-term loans and other similar assistance . . ." Further, Part B, Section 2.13(e) recites that "Participation certificates may be issued to persons eligible to borrow from the association to whom voting stock is not to be issued," and Section 2.13(f) of the Act required that "Each borrower from the association shall be required to own at the time the loan is made voting stock or participation certificates as provided in the bylaws of the association . . ." The standard bylaws of Production Credit Associations require the purchase by and issue of participation certificates to borrowers in whose loans it participates.

Since the passage of the Farm Credit Act of 1971, a number of Production Credit Associations have provided a source of funds to local commercial banks by participating in eligible agricultural loans of farmers and ranchers made by such commercial banks. As of June 30, 1979, ten Production Credit Associations in the Farm Credit System had 171 such participation loans with commercial

banks for a total of \$26,721,466. This has provided those local banks the capability to service farmer and rancher loans beyond their loan limits, or provided financial relief where the banks' loan-to-deposit ratios were considered too high. We believe this source of funds to the commercial banks has been of considerable benefit to them, and in many cases has enabled the farmer or rancher borrower to retain his local source of credit according to his needs rather than being financed on a restrictive basis.

Because the current law, as recited in Part B, Section 2.13(f), requires that each borrower own "participation certificates" as evidence of ownership in the capital of the Production Credit Association, some banks are hesitant, or do not enter into loan participation agreements with Production Credit Associations even though it may be of benefit to their borrower and their operation in general. The reason for this is that they do not wish to make the purchase requirement of their borrower, or if the bank makes the purchase to support a participation loan it must be recorded in the borrower's name on the books of the Association and as a result the bank loses control of the asset, including any dividends that may be declared on such participation certificates.

It is our opinion that the Farm Credit Amendments of 1979, which would amend Section 2.13(e) of the Farm Credit Act to authorize PCAs to issue participation certificates to commercial banks and other lenders, would facilitate participation programs. By permitting the direct lender-to-lender relationship, we believe a greater interest by commercial banks and other lenders would be taken and as a result farmers and ranchers would have additional assurance of an adequate source of funds through their local banks. We believe this amendment is a positive addition to the Farm Credit Act.

I strongly encourage your support of these efforts to provide a more progressive Farm Credit System for agriculture through HR-4782.

Mr. Chairman, this concludes my testimony.

STATEMENT OF JAMES D. HENDRY ON BEHALF OF THE OMAHA DISTRICT OF THE FARM CREDIT SYSTEM

Mr. Chairman and members of the Subcommittee, I am James D. Hendry, Vice Chairman of the Board of Directors, Farm Credit Banks of Omaha. The three Banks (the Federal Intermediate Credit Bank, the Federal Land Bank, and the Bank for Cooperatives) along with Production Credit Associations and Federal Land Bank Associations, have approximately \$6 billion in loans outstanding to farmers and ranchers in Iowa, Nebraska, South Dakota, and Wyoming. The Banks and Associations in this District loan about one third of the total agricultural credit in our territory. I appreciate this opportunity to present the Bank's views concerning HR 4782, the Farm Credit Act Amendments of 1979.

I would like to comment on six specific issues that are addressed in the proposed amendments. Those six issues and my thoughts relating to them are:

1. Authorize the Federal Farm Credit Board to set the salaries of the Farm Credit Administration's (FCA's) Governor and Deputy Governors within the limits of the Executive Schedule.

This proposal is designed to better enable the Agency to attract and retain an executive staff of the caliber required to carry out its mission. An upper limit on the salaries of FCA's executive staff would be retained since the Federal Board would be prohibited from setting a salary above the maximum rate of basic pay in the Executive Schedule. This proposal, as well as all other FCA employee proposals, would entail no cost to the U.S. Treasury, since the expenses of the Agency are paid by the System's borrowers rather than by U.S. taxpayers.

2. Authorize FCA to set up its own salary and classification system for employees below the Deputy Governor level, subject to the ceiling of the General Schedule.

This would entail removing FCA employees from the classification requirements of the Office of Personnel Management, but would continue the ceiling of the General Schedule. The purpose of the proposal is to facilitate placement of qualified candidates and to provide flexibility by making FCA salaries competitive with those in the Farm Credit System.

3. Authorize FCA to establish its own qualification requirements for positions in the Agency.

This would entail exempting FCA employees from competitive examining requirements of Office of Personnel Management. A principal benefit of the proposal would be to speed up FCA's recruitment process.

4. Exempt FCA from Federal travel, procurement, and property regulations.

The objective of this proposal is to establish operations of the Agency on the basis of good business practices without the constraints of detailed procedures imposed by current Federal regulations.

5. Allow improved portability of employees between the Farm Credit System and FCA.

Specifically, the proposal would allow for portability of sick leave and retirement between Farm Credit System District retirement plans and the Civil Service Retirement system. This could be accomplished by providing credit for all years of service under Civil Service for both annuity calculations and vesting. My personal experience leads me to believe that the Agency and the System benefit when employees can move from the field to Washington and vice versa.

6. Increase the Federal Board per diem to the daily equivalent of the rate prescribed for grade GS-18.

The current per diem of \$100 per day was established in August 1966. At that time, this amount was roughly equivalent to the daily rate payable to a GS-18. Hence, this proposal would simply bring Federal Board per diem compensation into line with the current rate of compensation for GS-18s.

In summary, these six items in HR 4782, the Farm Credit Act Amendments of 1979, would delegate to the Federal Farm Credit Board the authority to set, within certain limits, the salaries of the Governor and Deputy Governors of FCA. FCA would also be authorized to manage salaries below the Deputy Governor level, employee qualification requirements, as well as travel, procurement, and property policies. The bill would also provide for improved portability of sick leave and retirement benefits between the Banks and Associations of the System and FCA.

Having been a director of the Banks for 17 years and a full time rancher longer than that, I understand the delicate balance that must be maintained in salary and benefit administration between being competitive in the marketplace and controlling operating costs. I believe this System has demonstrated its capacity to manage its own affairs and that further delegation is logical and appropriate. The Omaha Banks are grateful for the opportunity to express its views before this Subcommittee. Thank you.

FEDERAL CONSERVATION AND FARM CREDIT ACT AMENDMENTS

THURSDAY, OCTOBER 4, 1979

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CONSERVATION AND CREDIT
OF THE COMMITTEE ON AGRICULTURE,
Memphis, Tenn.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 936, U.S. Federal Building and Courthouse, Memphis, Tenn., Hon. Ed Jones, (chairman of the subcommittee), presiding.

Present: Representative Madigan.

Staff present: Robert A. Cashdollar and Frank Winston.

Mr. JONES of Tennessee. Ladies and gentlemen, we would call this meeting to order.

Before we hear the first witness, I'd like to lay out the ground rules for the hearing and say to each witness who is here that we do appreciate very much the fact that you have spared the time to come for the purpose of talking about the farm credit, conservation and/or any other thing that you want to talk about as far as agriculture is concerned.

I'd like to tell you, in case you don't know, that I am Congressman Ed Jones. I represent the Seventh District of Tennessee. We are not in it right now but we are close to it. I start at the Wolfe River and go north.

We've had 2 days of hearings this week. We were in Hutchinson, Kans., on Tuesday, and then yesterday we were in Aberdeen, S. Dak.

We have 2 days of hearings here in Memphis, and we do want each member to take whatever time necessary for you to say what you want to do.

At the same time, I'd like to say to you that we'd like for you to be as brief as possible. We have a long witness list.

If you have a written report that you want to summarize, that's perfectly all right, because the recorder will be instructed to put all of your testimony in the record regardless of how you handle it.

As you approach the podium, if it is a written statement and we do not have a copy of it, I'd like you to give it to one of the staff members here on my left, Kelly Sharbel, my legislative assistant, or Bob Cashdollar, a staff assistant of the Conservation and Credit Subcommittee.

Both are Tennesseans well informed where agricultural and farm problems are concerned.

Later today, at least by noon, the ranking minority member of the Conservation and Credit Subcommittee will be here to join us, Congressman Ed Madigan of Illinois. He is a very able member, very cooperative, and a hard worker.

The reason he's out here this morning is because he got in late last night. He has been to Canada making a speech to some of the people who are interested in the same legislation that we're going to be talking about here.

Our first witness this morning is a great friend of mine. In fact, he went to the Congress about 3 months before I did because he went in the general election and I picked up 3 months later in a special election here in my district.

Congressman Bill Alexander represents the First District of Arkansas, just across the river.

Congressman Alexander is a very able member of the Appropriations Committee, which, as many of you know, Congressman Jamie Whitten chairs.

Bill's on that committee and the subcommittee for agricultural appropriations, the subcommittee that we all look forward to after we pass legislation, because that's where the money comes from.

When I first went to Washington, Bill was a member of the legislative Agriculture Committee, of which I'm a member now. He moved over to appropriations and has represented our area and all other areas real well.

He's also a member of the President's Export Council. He has contributed much to this cause and this problem that we have with exports.

He's also on the President's Advisory Committee for export trade, or he's called on frequently to be consulted in that regard.

And then he's a member of the Executive Committee of the Congressional Record Caucus. He helped to organize it when we first went there, and is also a member of the House Export Task Force, which coordinates our agricultural exports.

Bill, it's delightful to have you. I appreciate the fact that you've taken the time to come over here, and when you have finished, if I have any questions I want to ask you, I'll do so, because I know your time is limited.

STATEMENT OF HON. BILL ALEXANDER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARKANSAS

Mr. ALEXANDER. Thank you very much, Mr. Chairman, and ladies and gentlemen.

It's not a rare experience for me to come to Memphis. In fact, I have appeared many times before that bench behind which you sit as an attorney in the Federal court in the Western District of Tennessee, and this lectern looks very familiar to me as one that used to be in the old courthouse down on Front Street.

It's a pleasure to be here this morning representing the farmers of America and the farmers of Arkansas, which constitute the most efficient and most productive economic segment of our society.

I would add by way of explanation to those who are here that are not familiar with the process that you are undertaking this morning, Mr. Chairman, that it is unusual for a chairman of a subcommittee on agricultural credit to conduct hearings throughout this country. It is a departure from the conventional wisdom which prevailed when you and I first went to Congress.

As we recall, we argued against this so-called wisdom because we feel that it is important for Congress to take its case to the people rather than the people taking its case to Congress. It looks like we have prevailed and you are here, and I am glad to appear before you. I congratulate the initiative that you have taken to appear all throughout this country in order to give every farmer who has a desire to appear before your committee the opportunity to do so.

It's not everyone who can afford to spend \$500 too \$1,000 to travel to Washington, make the arrangements that are necessary and be away from their farm, ranch or business and take that time out of their production in order to travel to Washington.

I urge you to continue, and if you have any problems in funding these trips before the Appropriations Committee, you know who to see.

I appreciate, also, the opportunity just to be here today to address this subject of agricultural credit. It is recognized throughout Congress that it was through your efforts, Mr. Chairman, that Congress revised the outdated lending policies and practices of the Farmers Home Administration during the 95th Congress.

I am grateful for your conducting these hearings and I am grateful for the additional initiative that you have taken in order to review the farm credit policies in the United States.

While the Farm Credit Act of 1971 has served us well, it is conspicuously obvious that changing economic realities dictate that it is time that some adjustments and refinements in the law be made.

Just as Congress recognized the need in the last Congress to liberalize the credit programs of the Farmers Home Administration, these amendments are necessary if the largest lender to American agriculture, the Farm Credit System, is to keep pace with the growing credit needs of farmers, ranchers, and their cooperatives.

I hope at the conclusion that we will have an opportunity to go into the posture of the Farm Credit Administration as it approaches changes within its system, because I think that's important to address.

While I am in support of the basic thrust of this legislation, I do want to address several issues of continuing interest and concern to me and to the people of Arkansas whom I directly represent.

I am pleased that the Farm Credit System has recognized the supportive role it can play in terms of export promotion. Provisions in H.R. 4782, the Farm Credit Act Amendments of 1979, which would authorize the Bank for Cooperatives to finance agricultural export transactions in which U.S. cooperatives are a primary beneficiary is certainly necessary.

As you mentined before, I am a member of the President's Export Council. One of the matters that we are considering at this moment is how to accelerate farm exports from the United States into foreign commerce. One of the primary obstacles that we have to overcome is how to finance large sales among farmers to foreign consumers; and I believe that the Farm Credit Administration must accommodate this need; and it is through this effort that you are conducting today that a credit policy will be formulated which I hope we as a member of the President's Export Council will have an opportunity to review with you. I am certain that we can join hands together in support of your

recommendations to accommodate the farm credit needs in order to accelerate exports into foreign commerce.

As chairman of the House Export Task Force, comprised of House Members who share the view that the direct export potential of this Nation's producers has largely gone untapped, I commend this focus. I believe it will fill a void of providing the medium and small farming operation with the opportunity to break into the export market.

As I understand the provisions, the BC's would be equipped to offer several basic financial services to cooperatives to facilitate international trade. These include authority to make deposits in foreign banks, to receive and hold credit balances from banks and borrowers, buy and sell bank acceptances, buy time drafts payable by foreign buyers of farm products, take part in currency exchange and make loans to facilitate transactions of borrowing cooperatives.

Such authority will yield, I believe, a greater share of farm product export business for cooperatives, with farmer members, in turn, the chief beneficiaries. I think it will make farmers money if we put the Farm Credit Administration into financing exports in foreign trade.

Another provision of the proposed amendments that significantly affects the people in Arkansas that I represent is the clarification of the impact that State interest rate ceiling have on the Farm Credit System loans. Arkansas is presently the only remaining State with a rigid constitutional usury ceiling, 10 percent on all types of loans.

In view of the rising interest rates, which I understand are about 12¼ percent for prime rate at the present time, the Arkansas congressional delegation introduced legislation, which the House has since adopted, to give temporary relief from our rigid interest rate limitation.

This relief would be in effect until the Arkansas voters have an opportunity to address the proposal of the Constitutional Convention during the general election of 1980.

The bill approved by the House exempts from the State ceiling, business and agricultural loans of \$25,000 or more and allows the charging of interest on these types of loans at not more than 5 percent above the Federal discount rate.

The legislation we offered extends the exemption to production credit associations and Federal land banks, as well.

You will recall when this kind of legislation was adopted some years ago, the Farm Credit System was omitted from the law, which permitted banks to charge more than the usury laws in various States up to 5 percentage points above the Federal discount rate.

The PCA's and the Federal land banks have been included in this legislation at your insistence and at my insistence.

The provision in H.R. 4782 which makes it clear that lending by the Farm Credit System is not governed by State-imposed usury laws will permanently settle this dilemma that States like Arkansas face, particularly in tight money periods.

Gentlemen of the committee, there are two additional areas not specifically covered in the proposed amendments which I hope the subcommittee will address.

The first deals with the issue of the repayment period on PCA loans. As I understand the current law in this regard, the general loan repayment period on PCA capital equipment loans is 7 years, with a provi-

sion for extending that an additional 3 years if the need is warranted.

It occurs to me that a 10-year repayment period might be beneficial to the farmer in these inflationary times whereby his annual payment would be smaller.

I would hope that the subcommittee will seek from the Farm Credit Administration statistical data showing the frequency with which the mechanism for extending the loan repayment period under current law has been utilized.

I think the Congress needs such data to determine if the loan repayment periods are realistic and appropriate for current economic conditions.

Second, I would hope that the subcommittee would give attention to clarification of the congressional intent with regard to the insurance activity that the Farm Credit System should be engaged.

While I can see the need for insurance activity in regions where private insurance companies cannot adequately serve producers, or in areas where private insurance companies may have been out of line with reference to the premiums that they charge farmers and thereby need some competition, as we all do, I question whether the Congress intended that PCA's and land banks get into the insurance business in competition with local insurance agencies and companies if those private agencies and companies are providing adequate service to the farm community in those instances.

Gentlemen of the committee, again I thank you for the opportunity for being here today. The chairman knows that he has my support in these legislative efforts and he knows that I shall certainly do my part when the Agricultural Appropriations Subcommittee considers the funding needs for the programs over which this subcommittee has oversight.

Mr. JONES of Tennessee. Thank you very much, Congressman Bill Alexander, and since you started, my good friend and colleague on this subcommittee as well as the Congress has arrived, Congressman Ed Madigan of Illinois, the ranking member on the subcommittee.

Bill, if you will permit me, before we ask you any questions I'm going to yield to Ed Madigan for any statement that he might want to make.

Mr. MADIGAN. Mr. Chairman, I do not have any statement to make. I do have to observe that as I walked in the bank of the room, I heard this voice and I said, "Gosh, that sounds like Bill Alexander, but we're not in Arkansas, so it couldn't be Bill Alexander."

I do want to acknowledge, Mr. Chairman, that Bill Alexander, while he was on our Agriculture Committee, was certainly a very effective leader there; and since he's been on the Appropriations Committee, he has been extremely helpful to us. We appreciate your continuing interest in agricultural problems in the United States and appreciate your being here this morning.

Mr. ALEXANDER. Thank you, Ed.

Mr. JONES of Tennessee. Let me say that I'm very grateful to Ed Madigan for making the effort to get down here on this week that we're not in Washington. He has been helpful to me personally in all the legislation that our subcommittee has brought forth since the 95th Congress when I became chairman and he became the ranking member.

Bill, I know your time is important and you've got to get back to some other places. I want to emphasize the fact that you do support the export provisions contained in H.R. 4782 which would finance co-ops and/or any other groups that would qualify, and that you do want the repayment period for PCA's, their loans, extended for a longer period of time.

Mr. ALEXANDER. Mr. Chairman, I think it's unrealistic under present circumstances to require the farmers of America to conform to a different pay period than other institutions require of their customers.

We have to deal with the real world. The real world requires credit for a period of time up to 10 years to repay some of these equipment loans and some of these farm credit loans, and I think that we must increase that period to 10 years in order to give the farmer the opportunity which is equal to other business people.

Also, I don't think it's fair to impose a different standard on the production credit associations, because they are in effect in competition with commercial banks, and I think that what's sauce for the goose is sauce for the gander.

Mr. JONES of Tennessee. Very good, and then on the insurance activity that some of the FLB's and bank co-ops and PCA's have been practicing, primarily the PCA's, I believe you stated that you are in opposition.

Mr. ALEXANDER. Well, I feel this way about it. I think if private business is not furnishing the service to farmers that they need at competitive prices, that we should allow the Farm Credit System to provide that service; but where the private insurance industry is providing the service at competitive rates, I feel that the PCA's and Federal Land Banks can better utilize their time and talents in serving needs that are more directly related to agriculture than the insurance business.

It's not that I've been pressured by the insurance industry or anything like that. I used to represent a PCA over in Arkansas and I learned a lot about the business. I do know that there was considerable interest in the farm credit community, and I don't restrict that to Arkansas, but the farm credit community at large, to diversify the business of farm credit. That interest varied as to its root causes. Some thought it should be done simply because the commercial banks were doing it.

Back 15 years ago when I was representing farm credit lenders, there was a big movement in the banking community to go in the real estate business, go in the insurance business, go in the travel agency business, and all that sort of thing.

Well, many States have curtailed these operations and they required the banks to get out of the travel business, to get out of the real estate business and so on.

So I think we've been through that cycle and we have learned from that that lenders can best serve their customers by lending, rather than providing collateral services that can be provided by other industries.

Mr. JONES of Tennessee. Thank you very much, Bill. We face this problem and we do understand fairly clearly that what the FCA's do want. Yet on the other hand, as a member of the Conference Com-

mittee in 1971 when we updated the Farm Credit Act, I thought that we made it fairly plain in the report language what we meant about participation as far as insurance is concerned.

I must admit that both myself and Ed Madigan and others of the subcommittee have had sessions with the FCA about this, the Governor and some of the board, and we look upon it as another profession that needs to be covered by people other than the lending institutions.

Mr. ALEXANDER. I felt that you would agree with this view that I have. We rarely disagree on many things. But there is strong resistance within the farm credit community toward getting out of the insurance business.

After all, they've got people who know that, who have developed expertise in those areas, and they have got staff in supporting roles of those people, they've invested money and time and that sort of thing, and it's hard to separate people from habits that they have developed without strong leadership.

I am suggesting to the committee that I believe that a stronger, firmer instruction to the Farm Credit Administration is warranted under the circumstances.

Mr. JONES of Tennessee. Thank you very much. Ed Madigan, do you have any questions you want to ask the Congressman before he leaves?

Mr. MADIGAN. No, I don't, Mr. Chairman, because I know that we'll have the opportunity to talk with him further when we're back in Washington, and I see that we have 16 other witnesses for this morning's hearing. I suspect that we better move along and we will be talking with you further when we get back.

Mr. ALEXANDER. Thank you.

Mr. JONES of Tennessee. Thank you, Bill. We appreciate your coming.

I think, ladies and gentlemen, I said when we started that I sincerely appreciate the fact that all of you have made the effort to be here today for discussion of the Farm Credit Act, as well as the conservation proposals that we are also trying to examine.

Our next witness is a gentleman from another part of the State of Tennessee who is well known to many of us.

He is a large livestock farmer in the eastern part of the State and also the majority leader for the State House of Representatives.

Tommy Burnett has been a member of the legislature for a good many years. He has been very helpful with State agricultural legislation and other areas that are important to us.

I was delighted when I found out that he wanted to come and be with us today.

Tommy, if you'll approach the podium, we'll be glad to hear you at this time.

Hon. Tommy Burnett from Jamestown, Tenn.

STATEMENT OF S. THOMAS BURNETT, MEMBER, TENNESSEE GENERAL ASSEMBLY

Mr. BURNETT. Thank you, Congressman Jones, Congressman Madigan. We certainly want to welcome you to the State of Tennessee and trust that your stay and visit with us is one that is enjoyable to you.

Congressmen, members of the committee, on behalf of the State of Tennessee, we would like to thank you for coming here and taking time out of busy schedules and busy lives to hold these public hearings.

We think that it's certainly wonderful in a period of time when perhaps the public is somewhat unhappy with Government to see you bringing Government to the people, rather than the people having to go to the Government.

I am, Congressman, as you said, the owner and operator of a farm in Fentress County, Tenn., consisting of approximately 1,500 acres. We predominantly are beef cattle oriented, having a herd of about 650 registered Angus cows. We predominantly sell commercial bulls and herd units of different types to different people. In addition to that, we raise approximately 200 acres of corn, which we use for silage and for feed; about 50 acres of snap beans; and the rest of the land, as such is in hay and in pasture.

For the past 12 years I have been a member of the Cookeville Production Credit Association, our local PCA, and also, for the past 5 years, a member of the Federal Land Bank Association. I can say without hesitation that I do not know what the rural people of my district would have done had it not been for the Production Credit Association and their endeavors.

Historically, the historic institutions of credit as we know it in the industrial areas have not been able to meet the needs of farm people as the Production Credit Association and the Federal Land Bank and the Farmers Home Administration has been able to do. They have certainly been a God-send to the upper East Tennessee area and the Cumberland Plateau.

I have become advised some few weeks ago concerning the pending legislation 4782, and I would like to address on particular part of this legislation, and that is the consideration of this committee and the Congress of lifting the 7-year limit which we presently have on PCA loans.

This was first established in 1962. In 1962 we could buy a 6-foot steel fencepost for a dollar. Last year it was \$2.35.

We could buy a roll of barbed wire for \$9.82. Last year it was \$33.

Fertilizer, 6-12-12, was \$49 a ton; last year it was \$136.90.

Fescue seed was 17 cents; last year it was 38 cents.

A 40-horsepower tractor was \$3,200; this last year it's \$8,600.

We could go on and on and on. The inflationary spiral that has hit all America has certainly been very pungent as it relates to farm people.

In our considered opinion and the opinion of a vast number of farmers in my area, the people that I deal with on a day-to-day basis, it is literally becoming impossible to make the payments as they should be made on a 7-year basis when we do not see the increase coming along in the price of farm commodities that's commensurate with the cost of farming.

All different things that a farmer touches has increased more than 100 percent, everything you can look at, since 1962, and it's certainly old and archaic to think that a 7-year limitation on PCA loans should be maintained. There is certainly nothing angelic or sacred about a 7-year period.

We would ask this committee to come into favor and to work through the Congress to increase that period of time to 15 years, or at least a minimum of 10 years.

This would help the farmers greatly in a period of time when they certainly are in dire need of help.

I assure you that since I found out about H.R. 4782 I have talked with literally hundreds of people who are involved in the farming community; and while on a local area, we're interested in all facets of the bill, above all, they are certainly interested in seeing an increase in the immediate future on the number of years on payback that they can have with the PCA loan.

Congressman Jones, I will submit this statement. I also would like to submit a statement on behalf of Senator Tommy Burks who was unable to be here, who is my colleague across the hall, in the upper body, as we call it in the States; but I do have his statement which I would like to submit.

Mr. JONES of Tennessee. Without objection, we will make both a part of the record. I am sorry that Tommy could not come, but we are glad to have his statement.

[The statement appears on p. 280.]

Mr. JONES of Tennessee. Let me say to you, Tommy, I do sincerely appreciate the time that you've taken to be here. I know that you speak with a great degree of experience and wisdom on this subject.

There is one question that I would like to ask you. We are not going to follow a procedure of asking individuals questions as they appear. Rather, we are going to call them back. I think that you have a conflict and you're going to have to leave sometime today.

The Cookeville PCA is one of the larger PCA's in the country. Is it the feeling of the majority of the borrowers who deal with the Cookeville PCA, that the loan should be extended for a longer period of time?

Mr. BURNETT. Congressman, without question that is the majority of opinion. I think that it's not only the majority of opinion of the individuals who are the borrowers of money, but I think the lenders themselves who are actively involved in the farm market for money realize that the 7-year period is archaic and needs to be changed.

Mr. JONES of Tennessee. Do you recall how much money Cookeville has outstanding to farmers?

Mr. BURNETT. No, sir, I do not. It is the largest, as I understand it, in the United States.

VOICE. \$169 million.

Mr. BURNETT. \$169 million, which I have a part of.

Mr. JONES of Tennessee. \$169 million in loans to farmers in your area. That's a considerable amount of money, I imagine.

Ed, do you have any questions?

Mr. MADIGAN. Tommy, at the outset, I do want to tell you that in Illinois we don't refer to the Senate as the Upper Body. It is the "Other Body." I was in the State House of Representatives like you are and I thought I'd share that with you. You might have some use for that sometime.

There's a couple of things that concern me here that perhaps are questions for a legislator to a legislator. You're in the State Assembly.

We have about 26 different proposals here in legislation that are being requested by these people. Among the things they want are exemptions for the Farm Credit System from the requirements of State usury laws and State truth-in-lending laws.

Do you see merit in exempting these people from these State regulations?

Mr. BURNETT. In all honesty, I do not.

Mr. MADIGAN. I appreciate your candor.

I ask the next question because, again, of your experience as a government official. These people are proposing to us that we exempt them from the personnel management policies of the Federal Government and let them go out and do their own thing, set their own standards; that we exempt them from the salary schedules, that we let them set their own pay grades and do all those kinds of things.

As you know, this is one of hundreds of Federal agencies that are creatures of the Federal Government, even though they are self-sufficient. It would seem to me to be very bad policy to let them set their own standards, because if there are about 500 different creatures like this running around and we do make this exception, surely the other 499 are going to be back in the next year or two and want to be exempt from all the Federal regulations as well.

I wonder if you would view these requests as being a shortcoming, or from your experience with this, do you see some merit in doing that?

Mr. BURNETT. I would think that I could probably see some merit in that in the fact that I would really like to see farm credit in the United States, and particularly as it relates to the State of Tennessee, to be more on an individual localized type situation where you had some local input.

In order to do this, rather than just broad-type rules and regulations by which farm credit is to be administered, I would like to see more local input and less of the problems of the inner turmoil that sometimes we do see in farm credit between the various organizations itself.

I think farm credit is a peculiar creature and perhaps to be administered it would need some additional leeways that perhaps other governmental organizations would not need.

In this regard, then, perhaps I can understand why they would not come under the normal personnel policies. It might be very, very hard to find people under standardized personnel type policies that are able to meet knowledge-wise the needs of the average American farmer in advice and knowledge and understanding of the farm program; but really, in talking about this, I gain would stress that it is very, very important that the tail does not wag the dog in farm credit, that local people, people who are involved with local farmers on a local level who know those farmers best should always have the greatest amount of input, rather than broad-type regulations that may work not for the best interest of farmers in a local area.

Mr. MADIGAN. My only other question is in relation to your involvement in politics here in Tennessee. Are you fellows going to take care of Ed Jones all right next year?

Mr. BURNETT. We have always taken care of Congressman Jones. Congressman Jones, though, has turned the favor to many folks.

Mr. MADIGAN. It would be a serious mistake if you didn't do that, because he's in a position of considerable influence now and I'm sure you appreciate that.

Mr. BURNETT. We do. We appreciate Congressman Jones very much.

Mr. JONES of Tennessee. I appreciate you gentlemen. Thank you very much, Ed.

Thank you, Tommy. I've got one question I just want to cover very briefly.

In 1971 when we updated the Farm Credit Act, the Federal Land Banks were making loans to farmers at an appraised rate of less than 85 percent of the established value of the farmland. We updated it to 85 percent, and I must say that I think the FLB's have done a good job in the appraisal and lending of money to farmers based on 85 percent of the value. Now they're asking that we increase that value above 85 percent, probably up to as much as 100 percent. Do you see any problem with that?

Mr. BURNETT. No, sir. I have no reason to believe that the Federal Land Banks do not work within the scope of having good appraisal programs. The creditor would be well secured in property, even though it might be assessed at a loan value of 100 percent, when you realize that the inflationary factor historically in the last 15 years, farmland has increased in value from 8 to 12 percent every year.

It does not take very long at that type of inflationary spiral for a farmer to have a reasonable equity based on inflationary process alone, compared to what actual value is.

It's becoming increasingly hard, and this is, I think, one of the heavy burdens, and where the Production Credit Association in our area has done such a great job in attempting to bridge the gap between the amount that we can borrow on a long-term period versus coming in with 7-year money for the interim perhaps when farmers do not actually have any additional money of their own to put into a farming program that is a good farming program that they need to expand.

I would certainly favor loans up to 100 percent of value.

Mr. JONES of Tennessee. Thank you very much. I appreciate your time and interest.

[The prepared statement of Mr. Burks, submitted by Mr. Burnett, follows:]



TOMMY BURKS
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MEMBER OF COMMITTEES
 FISCAL REVIEW
 EDUCATION-SECRETARY
 JUDICIARY
 TRANSPORTATION

The Honorable Ed Jones
 Chairman
 House Agriculture Committee
 on Conservation and Credit

Testimony of Tommy Burks, farmer and State Senator of the 13th Senatorial District, for the hearing to be held on October 4 and 5 at the Federal Plaza in Memphis, Tennessee.

Mr. Chairman and members of this distinguished committee, my name is Tommy Burks, and I own and operate a 1,000 acre farm near Monterey in Putnam County, Tennessee. My farm operations include beef cattle, feeder pigs, tobacco, and the growing of grain and hay to supply the needs of my farming enterprise. In addition to personally working and operating my farm, I am in my ninth year in the Tennessee General Assembly: 8 years in the State House of Representatives and serving 4 years as Chairman of the House Agriculture Committee, and I am now serving my first term in the State Senate from the 13th Senatorial District which consists of ten rural counties in Upper Middle Tennessee.

I have been fortunate to serve in farm organizations in my home county of Putnam in several capacities:

- 7 years as President of the Putnam County Farm Bureau
- 6 years as Chairman of the Agricultural Extension Committee

6 years as President of the Putnam Farmers Co-op Board
Presently serving as President of the Putnam County Livestock
Association

And for the past 15 years have been a member of Production
Credit Association in my county.

I only relate a part of my background to assure the members of this
committee that farming is my way of life and that the decisions this
committee makes will affect the lives of Tennessee farmers and nation
wide.

The members of this committee are to be complimented on their
efforts to get the opinions of rural people on the pending farm credit
legislation for 1979. We thank the Honorable Ed Jones for introducing
House Resolution 4782. It is the opinion of many farmers in this area
and it is my personal opinion that Production Credit Association
should have the privilege of extending loans for periods of more than
seven years for capital purposes. It is also my opinion that the
purchase of real estate should be included in the purposes eligible
for financing by PCA's. With the increase in costs of farm in-puts
over the last few years, it seems that a fifteen year term would be
more realistic than the seven year term presently being extended by
PCA.

Our area is devoted primarily to the production of beef cattle

and the major source of income is the sale of feeder calves. Several farmers in this area of the state are still clearing, seeding, and fencing pasture land. The cost of developing a farm program of this type has increased tremendously since 1962 when Production Credit Association was approved to extend capital credit for seven years. My own farm operation fits into this category. I borrowed the capital from Production Credit Association to purchase a bulldozer about seven years ago to clear approximately 400 acres of land and have accomplished about 300 acres of this.

A seven year loan does not allow for any crop failures or low cattle prices such as the five year slump we in the beef business suffer. Seven year loans were more adequate when I began borrowing capital from Production Credit Association fifteen years ago because the rate of inflation didn't cripple your farm operation in the manner that it does now. Times have changed and the need for extending PCA loans to fifteen years is relative to this day and time,

If Production Credit Association is to continue to be of maximum service to the many farmers in this state and nation, a longer term capital loan is essential. Along with the many desirable features of House Resolution 4782 let me encourage the committee to consider lifting the seven year limitation on capital loans by Production Credit Association.

Again, let me thank this distinguished committee and Congressman Ed Jones for giving Tennessee farmers the opportunity to testify to this committee.

Mr. JONES of Tennessee. Our next witness is from the State of Arkansas, and there are two who will be, no doubt making the presentation. Mr. W. F. Carl, the president of Riceland Foods of Stuttgart; and Mr. Romeo Short, chairman of the board of Riceland; and Dick Bell, the chief consultant.

If you gentleman will come forward, if you are all here. Romeo, if you're by yourself, that's still all right.

I've known Mr. R. E. Short and his father for many, many years. He's a displaced Iowan. Romeo was born here, but his father came from Iowa many years ago and has contributed much to southern agriculture. Romeo, we appreciate the fact that you're here. Dick did not come?

Mr. SHORT. No, sir, and neither did Wilford.

Mr. JONES of Tennessee. We remember Dick Bell because he was with the Department of Agriculture, as you quite well know, and as Ed knows, and did a super job.

Mr. SHORT. We do have Mr. Charles Gunnell, who is vice president for finance with Riceland Foods, with us today in case there are any technical questions that come up.

Mr. JONES of Tennessee. Mr. Gunnell, if you'll stand up, we'll recognize you, too.

Thank you for being here.

STATEMENT OF R. E. SHORT, CHAIRMAN OF THE BOARD, RICELAND FOODS; ACCOMPANIED BY CHARLES GUNNEL, VICE PRESIDENT FOR FINANCE

Mr. SHORT. Mr. Chairman, and your distinguished colleague, Congressman Madigan, we're happy to have the opportunity to appear before you today.

I am R. E. Short, Jr. I own and operate a 4,200-acre Riceland soybean farm in eastern Arkansas. I am personally deeply involved in the Federal farm credit system in that I financed my farming operations with the Production Credit Association.

I currently serve as chairman of the board of Riceland Foods and it is on Riceland Foods' behalf that I appear before you today in support of H.R. 4782.

It is vitally important to our country's agricultural community to have a modern and efficient farm credit system of farmer-owned and farmer-controlled cooperative lending institutions. We believe the amendments to the Farm Credit Act of 1971 proposed in H.R. 4782 will strengthen the system and prepare it to meet the challenges of the future.

Riceland Foods is a farmer-owned cooperative for marketing rice, soybeans and other grains grown in Arkansas and surrounding States. We receive, process, and market approximately one-half of the rice and one-third of soybeans grown in our area of operation. Our sales exceed \$500 million a year with more than one-half of these sales going into the export market. We have been in the export business for a considerable period of time.

The principal source of credit for Riceland Foods operations is the St. Louis Bank for Cooperatives. Last year the St. Louis Bank provided 80 percent of our credit needs.

Our other source of credit is the Commodity Credit Corporation, CCC programs, and we use this source of credit for making advances to our members.

The CCC cannot provide all our credit needs at harvest. Therefore, we are dependent on credit from the St. Louis Bank for the successful operation of our marketing programs. Our credit lines from the St. Louis Bank for Cooperatives totaled \$165 million this past year.

Although we want to borrow money at the lowest possible cost, it is equally important to us to be able to obtain credit when it's needed. In this regard we welcome the proposed amendment which would clarify the status of the Farm Credit System regarding State-imposed interest rate limitations.

We have reservations about one of the proposed amendments. This would be the amendment to broaden the authority of the Federal land banks and production credit associations for financing of processing and marketing activities related to an applicant's farming operation. The proposed amendment would allow each district farm credit board to set specific policies on implementation of this provision under regulations established by the Federal Farm Credit Board. We have reservations about the Federal land banks and PCA's getting deeply involved in activities now provided by marketing cooperatives.

We at Riceland Foods are particularly interested in the proposed amendments authorizing banks for cooperatives to finance export transactions and foreign operations of farmer-owned cooperatives. Most of our growth in recent years has come from increased export sales. Our organization would not have survived back in the fifties had it not been for the literal handholding and constant assistance they received from the St. Louis Bank for Cooperatives. Last year the volume was in excess of \$141 million and it's getting along fine,

This has been repeated all up and down the line. If our cooperative banks are given this authority to work with the total financing needs of the cooperative, our marketing philosophy at Riceland Foods emphasizes selling directly to foreign buyers.

Due to added costs, we do not like to sell through large export firms or international trading companies. We do sell to such firms, but only if it is a distinct advantage for us to do so.

We have been successful in selling directly to foreign customers. Most of our export sales are made this way. But we know that we have missed export opportunities by not having the financial flexibility to meet the competition of export firms.

The proposed amendments would be helpful to us in obtaining the financing we need to meet the competition of these other firms.

We also have foregone several opportunities to join with foreign firms in joint marketing efforts. In our view, several of these opportunities would have been a definite advantage to our members if we could have obtained the financing to undertake them. The amendments proposed would provide us this financing.

I'd like to emphasize that the amendments proposed authorizing banks for cooperatives to engage in export financing do not give any special advantage to banks for cooperatives. Commercial banks are already involved in such business, and the amendments would merely put banks for cooperatives on equal footing with commercial banks engaged in this type business.

Finally, I believe it is important to emphasize that all government investment in the Farm Credit System has been retired and new programs provided by H.R. 4782 will be financed entirely from within the Farm Credit System.

There would be no Government funds involved in the new programs being proposed. The proposed amendments would simply provide farmers with opportunities to help themselves, particularly in opening and developing export markets for their products.

Mr. Chairman, we would just emphasize the three areas in which we are most interested, and that's the State-imposed interest limitations that can certainly have a limiting effect on available credit, export financing and joint venture financing.

We would like to add to Congressman Alexander's comments a commendation for your bringing this hearing to the local areas and giving us and those others present an opportunity to provide.

Thank you very much.

Mr. JONES of Tennessee. Thank you very much, Romeo. Are you going to be able to stay for a while?

Mr. SHORT. Yes.

Mr. JONES of Tennessee. At this time we'd like to just start off with calling the morning witnesses and then calling you back for questioning.

Thank you very much.

The next witness is a friend I have known for many years. He resides in Washington and works for the National Farmers Union. Reuben Johnson.

Reuben, will you come forward and take the podium. We are delighted that you are here. We appreciate the fact that you came down for this hearing.

Mr. JOHNSON. My home State is over here a little farther east; I have a farm in Georgia, and I'm pleased to be here.

STATEMENT OF REUBEN L. JOHNSON, DIRECTOR OF LEGISLATIVE SERVICES, NATIONAL FARMERS UNION

Mr. JOHNSON. As you know, Congressman, we in the Farmers Union are making witnesses available to all of your hearings. Our president of Kansas appeared at Hutchinson, Dale Lyon.

Our president in South Dakota, Ben Ratcliff, appeared in Aberdeen. Hopefully, they were saying close to the same thing I'm going to say here today, since I happen to be their hired man.

We will have witnesses in Spokane and in Champaign.

Mr. Chairman, as you know, and Congressman Madigan knows, we in the Farmers Union have a long history of support for credit agencies authorized by the Farm Credit Act of 1916.

The attached excerpt from the 1979 statement of policy further amplifies the attitude of our members toward the Farm Credit Administration and its agencies. I would like for that excerpt to appear in the record.

Now I want to turn right now to some specific major changes made in H.R. 4782 in the policies and structure of the credit institutions under the jurisdiction of the Farm Credit Administration.

I would like to point out that while the Credit Administration is autonomous in its financing, that it is a federally sanctioned agency, as Congressman Madigan has already noted; and it therefore still has ties to the Congress and to the Government.

I'd like to comment first on the proposed amendment which would authorize the FCA to charter corporations to perform service and financial functions. Currently, such services relate to recordkeeping, equipment leasing, real estate appraisal service, and the sale of casualty and liability insurance, credit life insurance, and crop, fire and hail insurance.

These are not universally available, but those are areas in which I understand the Farm Credit Administration has been moving in recent years.

Our policy statement, which I referred to, has expressed strong disapproval of the FCA agencies engaging in the sale of insurance except for credit life insurance.

It would be in order, therefore, for questions to be raised concerning this proposed amendment to the Farm Credit Act.

We weren't aware that we were passing a law in 1971 which would permit the sale of insurance. We have now found that we did, or the Congress did, and this amendment raises some questions about whether if the farm credit agencies persist in the sale of insurance whether they in time will be able to establish their own companies. Of course, we would be strongly in opposition to that.

Second, we would like to comment on the proposed amendment which exempts the FCA agencies from the Truth in Lending Act. For several years, spokesmen for the agency have urged Congress to exempt agricultural credit from the provisions of the Truth in Lending Act.

This has been the case in spite of the fact that the Farm Credit institutions provide only about one-third of the credit used by the nation's farm families, and admittedly, that's a sizeable amount of money.

We have strongly resisted the proposed change, and on one occasion we debated Glen Height of the St. Louis office before the Subcommittee on Consumer Affairs in the Senate, I believe it was, chaired by Senator Riegle of Michigan, making what we thought was a very good case for retaining full disclosure under the Truth in Lending Act for loans made to farmers by the Farm Credit agencies.

I might add, Mr. Chairman, in this day of computerized technology this information is readily available, and we see no reason why it should not be made available to the borrowers from the Farm Credit agencies. We're particularly concerned that we not exempt banks and other private lenders from the provisions of the act.

Third, we'd like to comment on the amendment which would broaden the authority of the PCA's and the FLBA's to finance processing and marketing enterprises which would be a part of farming, ranching, or aquatic operations of eligible applicants and borrowers.

There are several questions that we would like to raise.

One, would the making of such loans, which would require additional capital in the system, in any way interfere with the making of traditional loans available?

Two, would the authority which this amendment would extend result ultimately in the Farm Credit agencies making loans to businesses for processing and marketing, moving away from the farmer clientele that it has traditionally served?

Three, would the extension of such authority interfere with the lending operations through the bank of cooperatives which include loans to groups of farmers for processing and marketing purposes?

Fourth, another amendment sought by the Farm Credit Administration would authorize the bank of cooperatives to finance export transactions. This amendment is perhaps the most significant in terms of changing the nature of the lending operations of the bank of cooperatives.

As we all know, international banking is a complicated business. Our domestic banking institutions engaged in this kind of banking have a huge network of overseas offices. It is difficult for us to comprehend just what is to be accomplished by extending the banker cooperatives' lending operations in a manner.

So we urge the committee to give consideration to the impact of this change and in this context to decide whether this authority is needed to give farmer cooperatives additional sales capabilities in international markets.

Certainly, if it would accomplish that purpose, it would be a step in the right direction.

Mr. Chairman, I'm going to skip my comments, a few paragraphs here. I understand you're going to have the whole statement appear in the record.

Mr. JONES of Tennessee. Without objection, it will all be placed in the record.

Mr. JOHNSON. I'd like to move down to the end, page 4.

This law would remove Farm Credit Administration employees from the classification requirements of the Office of Personnel Management, but continue the salary ceiling of the general schedule currently set at \$47,000 annually.

Further, the FCA would be enabled under the proposed amendments to:

One, establish its own requirements for qualification for positions in the agency;

Two, to set salaries of the Farm Credit Administration Governor and Deputy Governors within the perimeters of the executive schedule;

Three, to exempt from Federal travel procurement and—travel, procurement and property regulations;

Four, to be permitted portability of sick leave and retirement between Farm Credit System, district retirement plans, and Civil Service System; and

Five, it would increase the per diem of the members of the FCA Board to the daily equivalent of that prescribed for GS-18.

There appears to be some contradiction in these amendments.

Spokesmen for the Farm Credit Administration have expressed pride on occasion on the autonomy of the agencies; the fact that no Federal funds are appropriated to sustain the agencies' operations is often cited as a major accomplishment, and we'd have to agree.

The conflict, as we see it, is between the amendments that would further exempt FCA employees from classification requirements of the Office of Personnel Management and to exempt the FCA from other Federal regulations, and the amendment to allow for portability of sick leave and retirement between Farm Credit district retirement plans and the Civil Service retirement system.

These amendments move in opposite directions. The committee, therefore, may want to give consideration to procedures in this connection which are consistent and at the same time reflect sound management policy.

This bill provides for other changes that I have not mentioned, some of which we heartily concur.

We have attempted to comment on those we think are of greatest significance. There are some Washington observers who have characterized the changes in this bill as moving FCA and its agencies in the direction of a multi- and full-service banking institution.

Whether this is good for farmers depends on the extent to which these agencies depart from the historic traditional mandate of the Congress directing them to serve the direct credit needs of the Nation's farm families.

This is the yardstick that we urge the committee to consider as it acts on the comprehensive changes that would be authorized by this bill.

Thank you.

Mr. JONES of Tennessee. Thank you very much, Reuben, for that good statement, and we do appreciate the fact that you came to represent the Farmers Union here at these hearings.

Mr. Madigan, do you have any questions?

Mr. MADIGAN. No, Mr. Chairman. As you noted, we do have to move ahead if we're going to hear all these witnesses, but I do want to observe, as you did, that I also think that Reuben's was a very good statement and addresses some of the points that have been of concern to me as I looked over the proposals. We appreciate your coming.

Mr. JOHNSON. Mr. Chairman, I just want to say that, as I said at the beginning, we certainly are strong supporters of the Farm Credit Administration System. We believe they function best when they are in the lending business.

We don't feel that some of the moves here that take them directly out of that line of activity may be to the best interest of agriculture in the long run.

Thank you.

Mr. JONES of Tennessee. I know that you can't stay. That's the reason we wanted to ask you these few little questions, because if there's any group that this subcommittee understands, it's the position that your organization occupies with reference to farm credit.

Mr. JOHNSON. I appreciate that, Mr. Chairman. I would like to say the reason why I'm having to depart, the reason why I asked you to be put on at this point, is that I am testifying in the Senate tomorrow on this identical legislation or something like it over in the Senate.

Thank you.

[The prepared statement of Mr. Johnson follows:]



STATEMENT OF
 REUBEN L. JOHNSON
 DIRECTOR OF LEGISLATIVE SERVICES
 NATIONAL FARMERS UNION
 TO THE
 HOUSE AGRICULTURE COMMITTEE
 SUBCOMMITTEE ON CONSERVATION AND CREDIT
 Chairman Ed Jones

Concerning
 H.R. 4782

A Bill to Amend the Farm Credit Act of 1971

Memphis, Tennessee

October 4, 1979

Mr. Chairman and Members of the Subcommittee:

I am Reuben L. Johnson, Director of Legislative Services, National Farmers Union. My address is 1012 Fourteenth Street, N.W., Washington, D. C. 20005.

Farmers Union has a long history of support for the credit agencies authorized by the Farm Credit Act of 1916. Farmers today know these agencies as Production Credit Associations which provide operating credit, Federal Land Bank Associations which provide real estate loans, and the District Banks for Cooperatives which service the credit needs of farmer cooperatives. The original intent of Congress in establishing these cooperative credit institutions was to give farmers a more satisfactory means of supplying themselves with credit.

The attached excerpt from the 1979 Statement of Policy of National Farmers Union further amplifies the attitude of our members toward the Farm Credit Administration and its agencies.

Now I would like to turn to H.R. 4782 with comments on its specific changes in credit policies and structure of the credit institutions under the jurisdiction of the Farm Credit Administration.

First, we would like to comment on the proposed amendment to the Farm Credit Act of 1971 which would authorize the FCA to charter corporations to perform service and financial functions. Under present law, district boards are empowered to authorize agreements between institutions within a district to provide for joint services to borrowers and to make joint undertakings between districts in providing joint services.

Currently, such services relate to record-keeping, equipment leasing, real estate appraisal service, and the sale of casualty and liability insurance, credit life insurance, and crop, fire, and hail insurance.

As you will note from the Policy Statement mentioned above, our delegates have expressed strong disapproval of the FCA agencies engaging in the sale of insurance except for credit life insurance. It would be in order, therefore, for questions to be raised concerning this proposed amendment to the Farm Credit Act.

For example, would extension of such authority to the Farm Credit Administration result in the establishment of an insurance company or companies and expansion into other businesses? We ask that the Subcommittee seriously question the need for such authority. What are the long-range implications of empowering the FCA to charter corporations for the purpose of extending services to borrowers which are not related to the direct lending operations?

Second, we would like to comment on the proposed amendment which exempts the FCA agencies from the Truth-in-Lending Act. For several years, spokesmen for the agency have urged Congress to exempt agricultural credit from the provisions of the Truth-in-Lending Act. This has been the case in spite of the fact that the Farm Credit institutions provide only about one-third of the credit used by the Nation's farm families. We have strongly resisted the proposed change and on one occasion debated an FCA spokesman in a public Senate hearing making what we think is a sound case for retaining full disclosure under the Truth-in-Lending Act for loans made to farmers by Farm Credit Administration agencies.

We, therefore, urge the Committee to give careful examination to this proposed amendment. Certainly the information called for by the Truth-in-Lending Act is readily available as loans are consummated, and we see no reason why this information should not be made available to farmer borrowers. We are especially concerned that other lenders also be required to comply with the Truth-in-Lending Act.

Third, we would like to comment on the amendment which would broaden the authority of the PCA's and the FLBA's to finance

processing and marketing enterprises which would be a part of farming, ranching, or aquatic operations of eligible applicants and borrowers. There are several questions that we would like to raise concerning this amendment:

- 1) Would the making of such loans which would require additional capital in the system, in any way interfere with the making of traditional loans available through the FCA agencies?
- 2) Would the authority which this amendment would extend result ultimately in the Farm Credit agencies making loans to businesses for processing and marketing, moving away from the farmer clientele that it has traditionally served?
- 3) Would the extension of such authority interfere with the lending operations through the Bank of Cooperatives which include loans to groups of farmers for processing and marketing purposes?

Fourth, another amendment sought by the Farm Credit Administration would authorize the BC's to finance export transactions, including allowing the BC's to make deposits in foreign banks, receive and hold credit balances from banks from borrowers, buy time drafts payable by foreign buyers, take part in currency exchanges and make loans to facilitate transactions to foreign cooperatives.

This amendment is perhaps the most significant in terms of changing the nature of the lending operations of the Bank of Cooperatives.

International banking is a complicated business.

Our domestic banking institutions, for example, that engage in banking on an international scale have a huge network of overseas offices. It is therefore difficult to comprehend just what is to be accomplished by extending the banker cooperatives' lending operations in a manner that would be authorized by this amendment. We urge the Committee to give consideration to the impact of this change and in this context to decide whether this authority is needed to give farmer cooperatives additional sales capabilities in international markets. Certainly, if it would accomplish that purpose, it would be a step in the right direction.

Fifth, H.R. 4782 would lower the percentage of farmer members of cooperatives borrowing from BC's from 80 percent to 60 percent except for rural electric cooperatives where the percentage of farmer members of cooperatives would be 70 percent. This change has been considered within our membership ranks for some time, and in the attached Policy Statement you will find that it has the support of our delegate body.

Sixth, H.R. 4782 would clarify and reaffirm that lending by the Farm Credit system is exempt from state usury laws. It is obvious that such exemption does enable the FCA agencies to assure availability of credit for farmers and ranchers in "tight money" periods. To the extent that interest rates range above limitations set by the usury laws of individual states, farmers and ranchers, of course, pay a price for the maintenance of exemption.

The problem that we see with this amendment is that it is needed in the first place. It would obviously be to the best interests of farmer borrowers from FCA agencies if the credit available were to be at a reasonable cost, hopefully lower than other private credit sources. If such were the case, the question of exemption from usury laws would never have occurred.

Seventh, H.R. 4782 would require that only two nominees in each district be voted on in the election process for District Director, rather than three nominees as is required under present law. The case for this amendment, according to FCA spokesmen, relates to the fact that two nominees would assure that the elected District Director would receive a majority of the votes cast. Very frankly, we see relatively little merit in reducing the number of nominees. The three-nominee procedure would seemingly be in line with giving eligible voters additional latitude in the selection of a District Director.

Eighth, H.R. 4782 would amend existing law to remove FCA employees from the classification requirements of the Office of Personnel Management, but would continue the salary ceiling of the general schedule currently set at \$47,000 annually.

Further, the FCA would be enabled under the proposed amendments:

- 1) to establish its own requirements for qualification for positions in the agency;
- 2) to set salaries of the Farm Credit Administration Governor and Deputy Governors within the perimeters of the executive schedule;
- 3) to be exempt from federal travel procurement and property regulations;
- 4) to be permitted portability of sick leave and retirement between Farm Credit system, district retirement plans, and Civil Service system; and
- 5) to increase the per diem of the members of the FCA Board to the daily equivalent of that prescribed for GS-18.

There appears to be some contradiction in these amendments.

Spokesmen for the Farm Credit Administration have expressed considerable pride on occasion on the autonomy of the agencies -- the fact that no federal funds are appropriated to sustain the agencies' operations is often cited as a major accomplishment of the Farm Credit Administration.

The conflict, as we see it, is between the amendments that would further exempt FCA employees from classification requirements of the Office of Personnel Management and to exempt the FCA from other federal regulations, and the amendment to allow for portability of sick leave and retirement between Farm Credit district retirement plans and the Civil Service retirement system. These amendments move in the opposite directions. The Committee, therefore, may want to give consideration to procedures in this connection which are consistent and, at the same time, reflect sound management policy.

H.R. 4782 provides for other changes in the operation of the FCA's credit functions. We have attempted to comment on those we think are of the greatest significance. There are some Washington observers who have characterized the changes in H.R. 4782 as moving the Farm Credit Administration and its agencies in the direction of a multi- or full-service banking institution. Whether this is good for farmers depends on the extent to which these agencies depart from the historic traditional mandate of the Congress directing them to serve the direct credit needs of the Nation's farm families. This is the yardstick that we urge the Committee consider as it acts on the comprehensive changes that would be authorized by H.R. 4782.

Attachment

EXCERPT FROM
NATIONAL FARMERS UNION
1979 POLICY STATEMENT

Adopted by Delegates
to the
77th Annual Convention
Kansas City, Missouri
March 11-14, 1979

Cooperative Farm Credit

We recognize that this cooperative system is dependent on the nation's money markets for its supply of loan funds and is thus largely unable to control factors that determine interest rates and the supply of money. Nevertheless, we urge that the system strive to ease the credit squeeze and reduce high rates of interest to family farmers and ranchers.

The Farm Credit banks should develop additional sources of loan funds to assure a plentiful supply of credit to farmers and ranchers at the lowest possible rates.

The securities of the Farm Credit System are available to individual farmers and ranchers and may be purchased from various dealers throughout the United States. In an endeavor to provide additional funding for the Farm Credit System, we urge that individual farmers and ranchers invest in these securities as they might invest in their own cooperative credit system.

We support the reduction of the membership criteria in the Bank for Cooperatives from 80 to 60 percent so the Bank can more adequately meet the financial needs of all cooperatives.

We urge Production Credit Associations to avail themselves of existing statutes which permit allocation of earnings on interest paid by the borrower.

The preeminent status of Farm Credit agencies in supplying credit to farmers, ranchers, and cooperatives gives such agencies the opportunity to exercise undue influence upon the purchase of insurance coverages by their patrons.

The prejudicing of farmers' and ranchers' choices of insurance coverages by suppliers of credit is contrary to the principle of free competition and abridges the freedom of choice by farmers and ranchers of their insurance coverage and of the general farm organizational or fraternal affiliations which are frequently associated with insurance.

The close relationship that exists between the federal government and the Farm Credit System makes the tie-in between sales of insurance and the granting of credit particularly objectionable.

Accordingly, we urge the Congress to prohibit the sale of insurance by Farm Credit agencies.

We recommend facility loans to include farm machinery and equipment.

Credit Policies and Programs

Farm credit is not a substitute for parity farm prices and income.

Access to adequate credit at reasonable cost is essential if family farmers and ranchers are to operate effectively and competitively. Government policies and programs should be designed to assure an adequate flow of credit to independent farmers and ranchers.

We deplore the constant escalation of interest rates which impose an intolerable burden, especially upon young farmers and ranchers whose initial capital requirements are excessive. The success of efforts by the capital-furnishing interests in abolishing usury limits dismays us. It is vital to the long-term survival of family farm/ranch agriculture to keep interest rates at a minimum.

Mr. JONES of Tennessee. Our next witness is Mr. William Kuegel, a dairy farmer from Owensboro, Ky.

Mr. Kuegel, we're delighted that you're here. You may summarize or you may read.

**STATEMENT OF WILLIAM KUEGEL, DAIRY FARMER, OWENSBORO,
DAVIESS COUNTY, KY.**

Mr. KUEGEL. Congressman Jones, Congressman Madigan, it's certainly a privilege for me to come and appear before you.

I'm William Kuegel from Daviess County, Ky. I have a herd of Holstein cows and milk around 150 head. In addition, I have approximately 200 additional head of heifers, calves, and dry cows and springers. I am also a partner with three brothers forming the Kuegel Bros. This partnership is primarily a grain and tobacco operation with about 3,000 acres of corn and soybeans and about 2,500 pounds of burley tobacco.

I am a member of various organizations, including Democratic chairman for Daviess County and also vice chairman of the Governor's Council on Agriculture in the State of Kentucky.

I have familiarized myself with House bill 4782 and can support it fully. I am particularly interested in the section allowing the bank for co-ops to finance co-ops that are exporting grain. It is very important to explore all avenues that would enhance and expand our ability to market grain abroad.

I was also a member of the Governor's party that visited Europe and Asia on behalf of exporting Kentucky's grain.

In addition, there is another area concerning extending the maturity of PCA loans, which is not presently a part of the bill, that I would like to draw to the attention of this committee.

I have been farming for 33 years, starting with three cows and building from that point to the present. I am well aware and can compliment PCA as they tailor their credit to farming operations. They, many times, make loans to young farmers having only used equipment, the current year's crop and a plan for security.

My brothers and myself formed a partnership buying land, small at first, until now we have 3,500 acres of land and have approximately \$350,000 invested in machinery and equipment.

Substituting capital for labor became a necessity many years ago. Today, the cost of single pieces of machinery have increased several times in the past 15 years.

In addition to this, my dairy herd has increased from three cows to now and the dairy technology has changed vastly in the past 15 years.

Dairy equipment, milk handling systems, feeding processes and handling systems have completely changed in the past 15 years. The cost of all these have increased at least five times. The cost has increased many times what the net returns have.

The returns to labor and management have narrowed to the point that unless you are big and efficient, your operation is at a loss. For the highly levered farmer with the increase in interest costs, this is particularly true. It is from net profit that capital debt is retired.

Increased operating costs for farming have placed the farmer in a severe cash flow bind. Net worths have increased, but this has come about by increasing indebtedness to cover operating costs, capital replacement costs and new capital investments.

There have been essentially no adjustments made in repayment requirements as directed by law, so the farmer must extend his intermediate term debt by getting the long-term loans. This increases his net cost of credit due to closing costs and additional interest.

To illustrate the above, in 1960 it took \$3.46 gross sales to net \$1 earnings. In 1978, this had risen to \$6.89 to generate \$1 earnings.

I know that PCA has been allowed to make 7-year loans beginning in 1962, but since that time there has been no change in the length of PCA loan maturities.

It seems to me that if PCA is to keep pace with agriculture as it changes, they must be allowed to make 10- or 12-year loans without restrictions and with the same flexibility that PCA has built a strong reputation on.

Therefore, I would strongly urge this committee to attach an amendment to the House bill 4782 that would permit PCA to do this.

I might add that in our community PCA has helped a lot of farmers who otherwise could not have gotten credit from banks and other lending institutions. So it has been very important to our community and some of our finest farmers started with a small loan from PCA.

Mr. JONES of Tennessee. Thank you, Mr. Kuegel, for being here, and we'll call you back at a later time when we've finished with some witnesses.

Our next witness is Billy Joe Miles of Owensboro, Ky. Welcome, Mr. Miles, we are delighted that you could come for this hearing. You may proceed.

STATEMENT OF BILLY JOE MILES, MILES FARMS, OWENSBORO, DAVIESS COUNTY, KY.

Mr. MILES. Mr. Chairman, I'll tell you, I sure do feel out of place here today. This is the first time I've ever testified before a U.S. Congressman.

I am Billy Joe Miles. I'm from Owensboro, Daviess County, Ky., and I've read House bill 4782 and support it.

In addition today, I would like to comment on the extended maturity for PCA's 7-year loans to 10 or more years.

I feel like I'm qualified to comment on this extension for PCA due to my involvement in agriculture. My father and I own and operate Miles Farms, which is a farming operation of 6,000 acres of corn and soybeans in Daviess and surrounding counties.

Along with the farms, we have a business of selling and erecting grain systems, storage buildings, and other farm buildings for local farmers in the area. This business has approximately \$25 million in gross sales at this time.

First, let me address the need for the longer term loan as a farmer. Due to the increased costs of all our farm inputs, more especially the increases in the fertilizers, chemicals and fuel products, it is becoming nearly impossible to have sufficient net earnings to repay our capital debt. As a farmer and a businessman, I realize that debt for

capital items such as land, buildings and equipment have to be repaid from profits and not just money turnover; and more, in fact, profits after tax.

Farmers must have buildings to house their more expensive machinery today and preserve its useful life. When I graduated from college in 1961, I bought a 6-row International corn planter. I gave \$1,600 for that corn planter. Today I need to buy a new John Deere planter to get around and farm more. The same planter lists for \$34,000, and if that's not inflation, I don't know really what we're talking about.

Farmers must have grain handling and drying facilities on their farms in order to get their crops harvested on time and not spend their entire fall in lines at the local elevators. If you're familiar with farming, you know that in the fifties we harvested with two-row equipment, probably 800 to 1,000 bushels a day.

In the sixties we went to four-row equipment. We could harvest 3,000 or 4,000 bushels a day. Yesterday I started a new combine in the field that will harvest 15,000 bushels a day. So there's no way that we can take this grain to the local elevators. We have to store it on the farm. Grain storage also allows us to have more control over marketing of our products. I think this goes hand-in-hand with financing our cooperatives so that they can sell to foreign people.

I make these points to show that grain systems and equipment storage buildings are not just nice additions to farms, but they are very dear necessities of the farms.

Farmers need the option to finance these buildings on an intermediate base of about 10 years. The PCA can aid the farmer in this type of financing without increasing the farmer's long-term debt commitment. In dollars and cents, this 10-year amortization would save the farmer about \$40,000 over a 25-year amortization program on a \$50,000 investment because of the shorter term on the interest.

If I could pay for this equipment in 10 years, I would be in favor of saving \$40,000, as I'm sure you would.

Also, most of the decisions to erect grain handling and drying systems are delayed until the crop is made. We're selling about three grain bins a day and about two buildings a week right now.

In the months of July and August we didn't sell any. So the farmer traditionally waits until he has his crop made before he spends his money.

Then this time is a very important point in that the immediate availability of the money is important. All the paperwork and the legal work that must be accomplished in our long-term lending delays this to the extent that many times that decision is delayed until next year.

We farmers are all funny creatures. We'll delay it till next year and at the same time we'll wait and see what type of crop we have before we decide to do it again.

From the standpoint of a businessman selling grain systems and storage buildings to farmers, I have seen a very rapid increase in the cost of these buildings, grain bins, legs and dryers.

At the point in the time of rapid inflation in these products, their usefulness has gone from a need to a necessity.

Today's farmers must have a \$60,000 to \$80,000 combine to harvest even a conservative crop of 400 to 800 acres, and some of these larger machines sell for up to \$100,000.

If you had this kind of investment in a machine that's full of bearings and susceptible to weathering and rust, you would want to keep it under roof, and the cost of this roof or building to house these pieces of equipment has gone from \$1 a square foot in 1965 when I started selling buildings, to \$4.50 today.

This is related to the cost of concrete going from \$18 a yard to \$40 a yard just in a period of 4 years; and we've had the same proportionate increases in the cost of steel and wire to go in the foundations.

As a contractor, I know that I make less per sale in 1979 than I did in 1974 because of the higher cost and the competition. This year in my business I'm showing a 2.8 percent return on the capital that I have, the sales that I have this year.

Thus, the problem is not in excessive profits from anyone in the line. The problem is inflation, which is a fact of life today and means the farmer must have a slightly longer term to pay for these buildings.

The same story applies to grain bins, dryers, and so on. To erect a grain system for an operation which has about 600 acres of crop, half in corn and half in soybeans, he needs about 40,000 bushels of grain storage.

This system, the grain dryer, grain handling equipment, will run about \$80,000 with the necessities that he needs. Our costs for the larger more mechanized systems with bucket elevators, wet storage bins, run as high as \$5 a bushel.

Now, \$5 seems high, but if a farmer lets us lay out a system like we think he needs, we will build for the future. We'll put higher capacity dryers, higher capacity legs, so that in the future all he will have to add will be his actual storage.

So, really, we need to spend about \$5 a bushel for the system that a growing farmer needs today.

One other thing that has added to the cost of this: We sell people equipment that will last from 35 to 40 years. So it's definitely a problem in short-term financing.

In summation, I hope that you can understand the necessity for farmers being financed on a longer term basis without going to the long-term mortgages on their land.

A farmer who acquired land—and I have several farms like this—and was financed early in the seventies at a rate of 7 and 8 percent interest; but if he has to go back and refinance his land, it will cost 12 to 14 percent today.

The amount of overhead will be increased on the total debt rather than just the grain system or the storage building alone.

Farmers need every break they can get in their debt structure at this time. I believe the 10-year financing system with PCA would be an answer to this.

I'd appreciate any question that you might have.

Mr. JONES of Tennessee. Thank you, Mr. Miles, we'll call you back when we're finished with some more witnesses.

Our next witness is Mr. Allen Harlan of Columbia, Tenn.

Mr. Harlan, welcome to the podium and you may proceed when you're ready.

**STATEMENT OF ALLEN HARLAN, FARMER, COLUMBIA, MAURY
COUNTY, TENN.**

Mr. HARLAN. Thank you, Mr. Chairman. Members of the panel, I'm glad to be here and I've enjoyed the testimony so far.

My name is Allen Harlan. I am a farmer in Maury County and have lived and farmed there for 30 years. I have been active in farm credit affairs in Maury and surrounding counties for about 25 years, both PCA and Federal Land Banks. I have loans with both PCA and Federal Land Bank at the present time. They are very patient with me.

Due to the fact that I have these loans and the above information that I have given you, I am of the opinion that I'm aware of the needs of the farm credit organizations to help them better serve the farmer stockholders in our area.

I have read the proposed legislation introduced in the House of Representatives by the Honorable Ed Jones of Tennessee, and I think the legislation covers a wide area that would be helpful to the Farm Credit System and to the farmers in our State.

I would like to mention at this point that I urge and support the attachment of an amendment to this legislation. This suggested amendment would remove the 7-year limitation on PCA loans and extend our present type of loans for a period of at least 10 years.

A great deal of expansion is occurring in Tennessee and, I am sure, in other States in the Nation. This amendment would permit the PCA to finance cattle feeding systems, large hog facilities, layer operations and many other capital improvements as have been mentioned here this morning without penalizing the farmer by having to pay back this money in 7 years.

I urge the members of this committee to consider this amendment that I mentioned above, this amendment to this legislation to include the 10-year loan. I think with a 10-year limit on our loan we should be permitted to use real estate as security.

Of course, as you know, most of the time it's secondary security, but it helps make a more solid loan for the benefit of the borrower, as well as the organization.

Most of this long-term money would be in the nature of capital improvements and, therefore, supports the real estate loan.

Thank you, sir. I have enjoyed appearing.

Mr. JONES of Tennessee. The next witness is Mr. Tom Wade, Jr., of Kenton, Tenn.

Mr. Wade, we do welcome you here to this hearing. We appreciate the fact that you've taken the time to be here.

**STATEMENT OF TOM W. WADE, JR., FARMER, GRAIN ELEVATOR
OPERATOR, COTTON GINNER, KENTON, TENN.**

Mr. WADE. Thank you, Mr. Chairman, and Congressman Madigan. I'm Tom Wade, Jr., farmer, country grain elevator operator and cotton ginner of Kenton and northwest Tennessee. I do business with the Dyersburg Production Credit Association, as well as the Federal Land Bank.

My written observations on H.R. 4782 deal specifically with the proposal to, "Broaden eligibility for financing FLB's and PCA's to include processing and marketing activities directly related to the applicant's farm," and so forth.

In the interest of time and to summarize my testimony, I believe that the addition of the amendment which will allow the farmer's own credit institutions, the Production Credit Associations and the Federal Land Banks, to provide credit for their members' processing and/or marketing businesses beyond present limitations will result in a more sound and constructive credit service where these needs exist and will contribute positively to assure that such combined ventures make economic sense for farmers and ranchers and rural America.

Thank you very much.

Mr. JONES of Tennessee. Thank you very much, Tom, for being here with us, and that was a good statement.

[The prepared statement of Mr. Wade follows:]

Statement of
Tom W. Wade, Jr.

Mr. Chairman and Members of the Subcommittee, I am Tom W. Wade, Jr., farmer, country grain elevator operator, and cotton ginner of Kenton, Tennessee. The Dyersburg Production Credit Association, with whom I do business and which serves my area, covers six counties in Northwest Tennessee, serving 3500 farmers and agri-businesses. Thank you for this opportunity to present some of my views concerning HR 4782, the Farm Credit Act Amendments of 1979.

My observations on HR 4782 deal specifically with the proposal to "broaden eligibility for financing FLBs and PCAs to include processing and marketing activities directly related to the applicant's farm, ranch or aquatic operations and those of other bona fide farmers, ranchers, or aquatic producers, leaving to each district board the authority to set specific policies on the implementation of this opportunity under regulations established by the Federal Farm Credit Board".

As I see this proposal of HR 4782, somewhat liberalized financing of farmers' processing and marketing activities would be of great benefit to the agricultural community. There is no question but that improved processing and marketing facilities for agricultural commodities make for higher prices and profits for the American farmer. On the other hand, I believe that the controls built into the Amendment, whereby regulatory authority and district boards set lending limits, preclude the possibility of straying from the general purpose of the Farm Credit System which was "to improve the income and well-being of American farmers and ranchers by furnishing sound, adequate, and constructive credit and closely related services to them, their cooperatives, and to selected farm related businesses necessary for efficient farm operations."

I would like to deal with my own personal situation for a few moments. PCA and their "Go Ahead" philosophy has played no small part in the obtaining of my own little slice of "The American Dream". My operation consists of 2,000 acres

of farm land, growing corn, soybeans, cotton, and strawberries, as well as cotton ginning and country grain elevator operations.

For a good many years, PCA has been financing part of the soybean, corn, and wheat inventory of my grain operation. And, as you can imagine, all the produce of my land is processed and marketed through my own businesses. We started out with a PCA line of credit of \$750,000.00 and have gradually worked up to a line of credit of \$1,250,000.00. I have been informed that my line of credit is being cut drastically because my local PCA office is being required to adhere specifically to the 50% limitation clause. This has greatly affected my entire operation. Naturally, my decisions have been made with the expectation of at least the same line of credit which has been available to me and, in fact, I had hoped that it would be raised in future years commensurate with inflation. In the past my line of credit with PCA had not kept pace with inflation, but we were hoping that this would be corrected in the future. Instead, suddenly I find myself having to make arrangements with city banks for money at much higher interest rates. These higher interest rates, availability of funds and split security are only a few of the problems in having split lines of credit. Naturally, these added expenses and inconveniences have to be absorbed by the local farmer. These are important reasons why I need a dependable and a broadened line of credit to serve my several hundred farmers in my six county trade area.

In Northwest Tennessee, corn and wheat can be sold to much better advantage by rail. Railroad service is sporadic at best, and quite often we have to hold grain for considerable periods of time waiting for rail equipment to become available. Farmers tend to sell grains in spurts, according to market movements.

For these reasons and on the strength of my relationship with PCA, I increased the size of my elevator operation considerably earlier this year and added several new trucks to my grain hauling fleet.

Obviously, there is a strong possibility that my expansions this year might have been postponed, or at least cut back, had we known less money would be available from PCA for filling the new bins with grain.

To summarize my own particular situation, I would like to point out that the limited authority I am now under not only affects my operation, but also the many farmers I serve in this area. I strongly feel if I could receive a dependable and adequate line of credit which my operation requires, the net result would bring an increase in prices for the farmers' products.

We believe the addition of the amendment which will allow the farmers' and ranchers' own credit institutions, the Production Credit Associations and the Federal Land Banks, to provide credit for their members' processing and/or marketing businesses beyond present limitations will result in a more sound and constructive credit service where these needs exist, and will contribute positively to assure that such combined ventures make the best economic sense for farmers and ranchers, and rural America.

I believe the Farm Credit System is the best system on earth and, within reasonable bounds, anything that is good for the American farmer is good for America and the world.

Mr. JONES of Tennessee. Our next witness is Mr. Robert Wooten of Munford, Tenn. Welcome, Robert. We are glad that you could take the time to be with us.

STATEMENT OF R. M. WOOTEN, FARMER, MUNFORD, TENN.

Mr. WOOTEN. Hon. Ed Jones, chairman of the Subcommittee on Conservation and Credit:

I am Robert Wooten from Munford, Tenn., Tipton County. I'm a farmer. I have farmed all my life. I have farmed cotton, beans and cattle, and I'm at the present time chairman of the board of the First Tennessee Production Credit Association of Covington, Tenn.

I speak to you on behalf of the farmers of this country who have a vital interest in the legislation introduced by you, Mr. Chairman, regarding the Farm Credit System.

The legislation is needed by today's farmer, but there is one item that is not in the proposed bill that is a must for the farmer, and that is removing of the 7-year limit on the term of loans made by the production credit associations.

The term should be for at least 10 years. The farmer is caught in an inflation spiral that has his expenses increasing by 20 or more percent each year.

With this in mind, he cannot possibly retire capital investments such as grain bins, swine and poultry facilities, silos, equipment sheds, needed conservation practices or many other needed projects over a 7-year period.

It is time to modernize the Production Credit Associations so they can continue to provide the type of customized credit they have been known for.

Thank you, sir.

Mr. JONES of Tennessee. Thank you very much, Robert. We appreciate your testimony and your interest.

The next witness is Mr. Flavius A. Barker of Dunlap, Tenn.

Mr. Barker, welcome. We appreciate the fact that you could come from Dunlap to Memphis for appearances here today. I think Mrs. Bouquard is your Representative, isn't she?

Mr. BARKER. That's right. She's doing a good job for us.

STATEMENT OF FLAVIUS A. BARKER, DAIRY AND GRAIN FARMER, DUNLAP, TENN.

Mr. BARKER. Congressman Jones, Congressman Madigan, I came here to support the 10-year loan for PCA's.

I'm Flavius A. Barker, a dairy and grain farmer from Dunlap, Tenn., and have been active in farm organizations for a number of years. I have served on the board of directors of Chattanooga PCA for 14 years and am presently serving as president of the Tennessee Federation of PCA's. I have also been active in the Farm Bureau, having served 17 years as a county president and 10 years on the Tennessee Farm Bureau board of directors.

I enjoy trying to make life better for rural America. This is the only reason I am here today, to ask for a 10-year loan for PCA. Farm

people have a great need for a 10-year loan, especially the young farmers just getting started. It is an advantage to the farmer to keep as much of his short- and intermediate-term credit in one place as much as possible. With a 10-year limit, PCA could serve his needs much better.

In today's farming, increased term financing must come from some place. PCA with their office facilities and staff already established can do this with very little, if any, extra cost. Over the last several years, farmers' income and expenses have gotten closer and closer together, leaving him fewer dollars to finance capital purchases.

With this squeeze, it has become a must to have longer terms on some purchases. A few of these are buildings, fences, concrete lots, pipeline milkers, bulk tanks, large combines and tractors and conservation practices such as drain tiles, ditch bank improvements, land leveling, sod planting, tree planting and so forth. With interest costs getting higher and higher, more and more of the payments go for interest and less for principal. The production credit associations are in business to serve the short- and intermediate-term credit needs of farmers.

Over the years it has been necessary to redefine the time limit which constitutes an intermediate term loan to reflect the changes which have taken place in the past 5 or so years.

During this time of heavy inflation, it would be to the advantage of the average farmer to extend to 10 years the intermediate term loan. This will increase his ability to repay his debts within the time limit set by a major farm credit lender.

If you want to ask any questions, I'll be around.

Mr. JONES of Tennessee. Thank you very much, Mr. Barker. We do appreciate that statement.

Our next witness is Mr. Ed Townsend of Paris, Tenn.

Ed, welcome to the hearing.

STATEMENT OF ED TOWNSEND, PARIS, TENN.; MEMBER, BOARD OF DIRECTORS, JACKSON PRODUCTION CREDIT ASSOCIATION, JACKSON, TENN.

Mr. TOWNSEND. Thank you, Mr. Chairman, and your colleague, Mr. Madigan. I feel that it's a privilege and an opportunity for me to be here to speak to you today.

I'm Ed Townsend from Paris, Tenn. I'm a full-time farmer; not as large a farmer as some of the farmers that have appeared here today, but I've been able to make a living and I guess that's about all we need. We're not going to take anything with us. I'm also a member of the Jackson Production Credit Association at Jackson, Tenn.

I've read and studied the proposed legislation, H.R. 4782, and I feel that this legislation would be helpful to the Farm Credit System and to our farmers in our State and to the general public.

I do not feel qualified to speak on all the segments of this proposed legislation, because I feel that many specialists have gone into making this proposal, and I'm not one of the specialists. I don't like to be called a specialist anyway, because I've heard a lot of different definitions of specialists. I won't go through all of those.

But I strongly feel that the proposed legislation should be amended so that PCA's could make a 10-year loan on a regular basis for the following reasons. My testimony is going to be brief because I realize that your time is important here and I don't plan to take up a lot of your time.

The net profit in some farming operations is so small that additional time is needed for the payment of capital debts, such as equipment, land clearing, soil conservation practices, buildings, grain bins, silos, breeding stock and of course others. For example, the recent drastic increases in cost of fuel, interest rates, labor, electricity, general supplies place an unexpected burden and hardship on many farmers to meet obligations that were made as recently as 2 or 3 years ago.

To further emphasize these comments, 2 years ago I went into a hog operation, not anything elaborate, small compared to a lot of people, \$60,000 capital investment, which is a very small operation in this day and time, but about as big as I can handle. Of course, I had to borrow the money from Production Credit. That is a capital item. I estimated the cost of production of pork at that time as about 25 cents per pound, and I believe that's about what most people estimated the cost of production of pork. Today I estimate, and with other people and I believe we agree, that the cost of production of pork is about 35 cents a pound today. Of course, 2 years ago the price of pork was near the 50-cent mark per pound, and today it is near the 35-cent mark.

So you can readily see that there's very little left in net operation from a hog operation to pay back capital debts.

That's the position that many of the farmers in our area are in today.

I realized when I went into this operation, I expected some fluctuation in the hog market. I've farmed for 30-some-odd years, and I expected some inflation; but I'll have to admit that I didn't expect the inflation that we've had in the last 2 years. I didn't expect the increase in fuel cost, the cost of money; all the cost of operation has increased about 30 to 40 percent actually over the past 2 years.

So it does put us in a bind as far as repaying capital items off.

I think that all farmers would like to keep their loans current. I know that I do. I like to pay them off as fast as I can. Because I've got a 7-year loan doesn't mean I wouldn't pay it off in 5, if I could; but at the same time, I think it would be helpful to farmers to have the opportunity to extend capital indebtedness over a longer period of time under the present situation that we have today.

Reason No. 2, I think farmers should have the opportunity to choose a loan for capital purchases with 10-year repayment, when needed, from the same source that he is obtaining the capital he has borrowed from.

I like it that way. I don't know whether everybody does, but if I can kind of do business with the same people, it kind of helps me keep my finances balanced. I think the people that can handle a 10-year loan on a capital item should have that opportunity to borrow money from the same people they borrowed their operating capital from.

Third, many of our competitors outside of the Farm Credit System are making available longer term loans on capital investments, which puts PCA's, my lender, at a disadvantage.

Fourth, loans are available with first or second mortgages on real estate for periods up to 40 years, and while these are necessary, there is a larger percentage of capital credit that a farmer can handle on a 10-year basis without having to mortgage his home and farm.

The farmer needs to have a choice as to where he wants to do business in this matter.

For the above reasons, which are brief, and I'm sure there are many others—I know there are—I strongly urge you to consider the 10-year loan for PCA's.

Thank you.

Mr. JONES of Tennessee. Thank you very much, Ed, for that good statement. We appreciate your presence here and, as I said, we'll call you back for some questions.

[The following correspondence was submitted:]

HOUSE OF REPRESENTATIVES,
STATE OF TENNESSEE,
Nashville, Tenn., October 2, 1979.

Hon. Ed JONES,
U.S. House of Representatives,
Farm Credit Subcommittee, Memphis, Tenn.

DEAR ED: As you are well aware of the subcommittee you are currently serving on is investigating the possibilities of expanding the Production Credit Association's present 7-year maximum term of credit to a proposed 10-year maximum term.

Being a farmer as well as an owner of a local farm machinery dealership I can foresee some advantages that could be brought about to the farmer. These advantages being that the PCA's could provide much needed competition to the local banks in the case of short term real estate financing.

I feel that the work you are doing will have a great impact on the farming community of which I am a part. I support and am very much in favor of making these term changes as soon as possible.

Very truly yours,

ROBERT S. STALLINGS,
Representative, 80th Representative District.

Mr. JONES of Tennessee. Our next witness is Charles McCry of Dyersburg, Tenn.

Charles, welcome to the podium.

STATEMENT OF CHARLES McCRY, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF MINORITY AGRIBUSINESS; DYERSBURG, TENN.

Mr. McCRY. Yes, sir, thank you, Mr. Chairman, and to you, Congressman Madigan, and to the distinguished staff of this committee.

Ladies and gentlemen, I'm reminded now of a few weeks ago when I was preparing a sermon over the weekend, and I got there Sunday morning and had to change it all.

In order to present to you a factual and a brief plight of the farmer and a minority agribusiness, I am executive director of the National Association of Minority Agribusiness, a Tennessee-based corporation.

I would like to yield at this time to our president who has a factual presentation. You may find that this is somewhat different than the House Bill or the proposed amendment, but certainly, you will find that it's quite interesting.

At this time, Mr. Congressman and you, sir, I present Mr. Thomas Burrell, president of the National Association of Minority Agribusiness.

Mr. JONES of Tennessee. Welcome, Mr. Burrell.

Mr. BURRELL. Thank you.

Mr. JONES of Tennessee. Do you have a written copy of your speech?

Mr. BURRELL. Not present with me today, sir, but I may furnish that.

**STATEMENT OF THOMAS BURRELL, PRESIDENT, NATIONAL
ASSOCIATION OF MINORITY AGRIBUSINESS**

Mr. BURRELL. Thank you, sir.

My name is Thomas Burrell. I'm delighted that you have afforded us the opportunity to make the presentation here today. Hopefully, it will have some impact on the proposed legislation; at least, we hope that it will affect minority agribusinesses.

I am the president of the National Association of Minority Agribusiness, which is a Tennessee-based organization. We have members in Arkansas, Tennessee, and Mississippi. I'm also a board chairman of an Atlanta-based organization, the Emergency Land Fund and the National Association of Land Owners.

The problem that the organizations that I have identified are dealing with basically is the problem associated with small farmers and in particular, small black farmers. Farmers, whether they be small, large, black or any other size or category, have basically one particular problem, and that is not so much with credit, as we would like to think, but with sales; and the problem that most of the black farmers are having is with the problem of being able to increase sales to the extent that they can afford or render the type of repayment that the lending institutions require.

Repayment is the problem, not so much here again as it exists for not knowing what to produce. A lot of the farmers that we talk to and the problems that we have identified is not so much not knowing what to produce, but is being able to acquire the capital to in fact do what we know ought to be done.

Second, as it relates to the 1978 Agricultural Credit Act, there are some provisions there that seem to have good merit to the average small or black farmer in particular, but because they are dependent upon a participatory relationship with an existing financial institution, particularly a commercial bank; and historically, these individuals have not been able to take advantage of the services of these particular banks.

A case in point: I think the operating budget under that act specifies that an individual applicant is eligible for up to \$200,000, \$100,000 of which is directly from the Farmers Home Administration, and the second \$100,000 is dependent upon being able to get this money guaranteed from a subordinated source.

To the extent that historically these individuals have not been able to take advantage of the provisions or the services of other lending institutions, on the one hand, and granted that the costs associated with a farming operation or the amount of capital that is needed to maintain a profitable farming operation exists, then that option is not a real

option, sir. I think somebody mentioned this morning that there is a need for some type of facilitating agent, and it is in fact a need for a facilitating agent, an agent to in fact complement some of the provisions and the funds that exist, particularly through the Farmers Home Administration.

One of the largest problems, and it here again relates to sale, is the individual's inability to obtain the amount of funds that are in fact necessary to do the practices that we know need to be done and that we know will lend themselves to high yields.

As we mentioned before, sales is a function of both yield and price. On the average, your average black farmer is more or less put in a position to where his sales are consummated at the day of harvesting. This will affect, also, the overall sales and ultimately, his repayment ability.

The inputs that most of the individuals need, at least one of the most important inputs, is time.

One of the complaints, and the observation that we have made, is that the individuals are not being able to receive the amount of money.

We're saying that the amount of money, the \$100,000 or the \$200,000, or even less, is not necessarily the issue; but the amount of money given or being distributed at a time when it will in fact make the individual more efficient to increase his sales, because we also find that some of the farmers are not necessarily denied certain inputs, but they find it difficult to receive these inputs because of the fact that they do not receive the funds in time.

Also, we were talking about planning. The problem that the delays in receiving funds has is directly related to planning. When an individual plans, his decisions are likely to be improved, and if decisions are postponed until absolutely necessary, then mistakes will be made.

We're not saying that planning will avoid mistakes, but better planning decisions should be made if the problem is studied carefully in advance.

Planning also coordinates and encourages coordinated thinking and develops standards for future performance.

We're saying that to the extent that the planning must precede the doing in most cases; but, however, with the lateness of funds the doing is almost at a time, for all intents and purposes, too late to make those planning decisions upon which our profitable yields and outputs are dependent upon.

Also, I hear a lot of statements being made particularly about the Production Credit Associations. One of the problems that we have identified with the Farm Credit Administration is that the track record with the production credit is such that the younger black farmers have difficulty receiving credit from them and that the trend seems to be that they are not, more or less, loaning funds to young farmers in particular.

However, granted that the age limitation is somewhere around 54 years of age, the future black farmers have an extreme difficulty being able to find sources from other lending institutions.

I would also like to ask—and you have already made provisions for this, to afford us an opportunity to put some other problems in perspective; but in the interest of time, we appreciate what you've done so far.

Thank you.

Mr. JONES of Tennessee. Thank you very much, Thomas.

The next witness is Larry Davis of Covington, Tenn.

Mr. Davis, welcome, and I might say that the next witness following Mr. Davis is G. C. Cortright, and I just say that in order to get you ready.

STATEMENT OF LARRY DAVIS, MEMBER, FEDERAL LAND BANK ASSOCIATION, COVINGTON, TENN.

Mr. DAVIS. Thank you, Mr. Chairman, Congressman Jones. It's good to be here with you today.

I'm Larry Davis. I'm a farmer from Covington, Tenn. Again, I really appreciate this opportunity to be here to give you my views concerning H.R. 4782.

My farm operation covers 990 acres, of which 320 are owned. I have to make a living on 730 of these acres, because the rest of it is woods, fence rows and that type of thing that hasn't been cleared. My main crops are soybeans, wheat, and corn. I am a borrowing member of the Federal Land Bank Association of Covington, which is in the Fourth Farm Credit District.

The Federal Land Bank of Louisville has 58,000 mortgage loans in excess of \$3 billion in the four States of Tennessee, Kentucky, Ohio, and Indiana, which make up our district.

The Federal Land Bank of Louisville is part of the national Farm Credit System which provides about \$50 billion or one-third of the Nation's total agricultural credit. As you can see, it's a primary source of credit to farmers like me.

In 1978 I purchased a 175-acre farm about a mile from my home. The Federal land bank provided the first mortgage money and FHA provided the second mortgage money that I needed to make this purchase.

I couldn't have taken advantage of this opportunity without the long-term financing abilities that these two agencies had, plus their ability to work together in a joint loan like this to give me near 100 percent financing.

The young farmer or low equity farmer today needs near this 100 percent financing ability when he goes into the purchasing of land. He's just not able to do it without it.

The ability of the Farm Credit System, I feel, to help young farmer's problems or other farmers that are low in cash or low in equity has been hampered as of the middle of 1978. At that time FHA discontinued 5 percent loans on land purchases and started directing half of their funding for guaranteed loans through other lenders.

If the law which limits the Federal land bank presently to financing of 85 percent of the appraised value of a land tract is not changed, I feel like Congress will be preventing many young farmers from establishing the foundation of owned land that they need for a sound future, and will be preventing the Federal land bank from meeting the increased credit needs of its members.

If this law is removed to allow Federal land banks to loan in excess of that 85 percent limit, I think this would allow the land banks to make the loans and FHA could guarantee whatever their limits will

allow, and then farmers will continue to build a solid foundation for their operations through land purchases.

I believe if you look around, the soundest farmers in the country are the ones that have a fair percent of the land they operate as owned land. I think this is the thing that gives the farmer the stability over the long haul, and I feel like this is the farmer that's the backbone of our agricultural situation in this country.

Over the past several years, the land banks nationally have used the coordinated joint-type program to loan \$1.23 billion to 25,000 farmers. I, for one, really have appreciated this type program. It's been a big help to getting me established in a farming program.

As I say, this is my second year in farming on a full-time basis. It's been one of my goals to be a successful farmer, I guess for 15 or 20 years, as long as I can remember.

I do strongly favor H.R. 4782, which would amend the Credit Act of 1971 and allow Federal land bank loans to exceed 85 percent of the appraised value of the security when the loan is guaranteed by Federal, State or other agencies.

I am also strongly in favor of the following major proposals of that bill:

First, the one concerning cooperative eligibility, which would lower the farmer-member eligibility requirement for bank for co-operative financing to 60 percent of the voting members or such higher percent as district boards may establish.

This would give the co-ops more flexibility and allow them to serve the interest of the farmers. It would leave the co-op under farmer control with the 60 percent, and it would also, I guess, make the co-operative and the advantages of it available to other people who are not farmers.

The second proposal I'd like to see that's in the bill, the one which would allow Federal land banks and Production Credit Associations to expand their financing of processing and marketing activities of farmers.

I think marketing and processing has become over the last 10 to 15 years a much more important part. We realize this is a definite part of our operation that we have to be involved in, and financing is an important part of it. I think this bill will allow the land banks and PCA's to more adequately serve the needs here.

The third proposal I see as a benefit to us would be the one that would allow bank for cooperatives to finance agricultural export transactions in which a U.S. co-op is a primary beneficiary.

Another area that I think would make the bank for co-ops better able to serve the farmers in international business.

The changes in this bill that I'm talking about, I feel, would strengthen the Farm Credit System by putting Federal Land Banks, banks for co-ops, PCA's and supply cooperatives in a better position to serve the farmer.

This ability, to me, will mean less dependence on Government for money and less need from Government for rules and regulations, two things that I think ought to come about.

Agriculture is America's largest and most important industry. Grant you, I'm biased.

Year in and year out we contribute probably as much to balancing the trade deficit—or to balancing trade in the United States than any other industry.

A strong agriculture is vital to any successful nation. I think we can look at history and see that. A strong credit system is vital in our industry today, and it has been responsible, I think, for our success in the past. It will be even more vital in the future.

I want to share this with you. This is a comment that I picked up from an anonymous writer, but I really like it. It hits me.

Man, despite his artistic pretensions, his sophistication and many accomplishments, owes the fact of his existence to a 6-inch layer of topsoil and the fact that it rains.

I am one small man who loves his place as a farmer on that portion of soil that I'm privileged to work with. I don't want to do anything to mess it up.

I would say a Nation of consumers who can eat on less than 20 percent of their salary doesn't really want to do anything to mess it up, either.

For that reason, I feel that we need expanded lending capability in our farm credit system. I believe the proposals in H.R. 4782 would help accomplish this, and I would urge you to do all in your power to help us pass this legislation.

Thank you.

Mr. JONES of Tennessee. Thank you very much, Larry. We appreciate those comments and they will certainly be given serious consideration.

Our next witness is Mr. G. C. Cortright of Rolling Fork, Mississippi.

Corley, we are delighted that you could come and be with us. I know you've contributed a lot to Mississippi and national agriculture.

While you are testifying, Mr. Leemon Colyer of Somerset, Ky., will be the next witness, so I'll just give him a little warning.

STATEMENT OF GEORGE C. CORTRIGHT, CHAIRMAN, BOARD OF DIRECTORS, STAPLE COTTON COOPERATIVE ASSOCIATION, GREENWOOD, MISS.

Mr. CORTRIGHT. Mr. Chairman, Congressman Madigan, members of the staff and members of the press: I am particularly glad to see members of the press here today because it is essential that we have favorable reporting of the events concerning agriculture that we might gain the votes of metropolitan area Congressmen that are needed to pass legislation in the national Congress.

Ms. Club replaces the late Gerald Deering reporting for the Commercial Appeal. Deborah, I will say that you improve the tone and atmosphere and most assuredly the aesthetics of the group, as compared to Gerald.

I recall when the Chairman's immediate predecessor in the House prior to going to the national Congress was in that interlude between his service for Social Security and making the congressional race. I think he was working with the county judges here in the district at the time, and we were working on the agricultural bill and we needed a cotton ginner to testify.

The beloved and revered Fats was in Washington at the time and he agreed to give the testimony, but he said somebody had to prepare it for him.

Several of us prepared the testimony and Fats began to read from it. Congressman Anderson was chairing that committee that day, and he was a bulldog and a hostile interrogator if I ever saw one, and I think Bob Poage was trying to outdo it; but after about 30 minutes of interrogation of him by the committee, and Fats was totally confused because he didn't have the slightest idea of what the terms were of some of the things we had written for him, Congressman Anderson says, "I move that we dismiss the witness. He seems more confused than the committee."

I hope I can stay clear of that situation today.

I am here today as chairman of the board of directors of Staple Cotton Cooperative Association, Greenwood, Miss. This statement is presented on behalf of the cooperative.

Staplcotn is the oldest cotton merchandising cooperative in continuous existence in the United States, having been organized in 1921. It represents today 4,822 members located in the delta areas of Mississippi, Arkansas, Louisiana, and Tennessee.

Average receipts for the past 3 years have been more than 500,000 bales and last year's cotton merchandising for members brought more than \$150 million.

In addition to merchandising cotton, Staplcotn's Chemical, Fertilizer and Seed Divisions had sales to its members of \$20 million.

We also own three small interior elevators and have marketing arrangements through cooperative elevators located on the Mississippi River.

Staplcotn discount is a wholly owned subsidiary and lends farmer members about \$50 million annually for crop finance, equipment and first stage processing or farm-related operations for manufacturing.

It is essential that Staplcotn and its members utilize three divisions of the Farm Credit System; namely, the Federal Land Bank, Federal Intermediate Credit Bank and the Bank for Cooperatives.

Today I shall limit my discussion to those parts of H.R. 4782 which relate to the Banks for Cooperatives and emphasize the need for these banks to move into export financing.

Last year Staplcotn exported more than \$17 million of cotton. It hopes to expand this volume, particularly by selling more cotton to Taiwan and the People's Republic of China, utilizing conventional bank financing in cooperation with the GSM-5 cotton marketing program, the export-import bank and, hopefully, new authorization for the Banks for Cooperatives to enter the field of financing agricultural commodity sales in foreign countries.

As a cooperative director, I am finding myself becoming more impressed with the expanding world market for American agricultural products. The export market for cotton alone is huge.

It amounts to about 6 million bales for each of the past 2 years and was the market for one-half of our 1978-79 production. The bulk of that cotton is sold in Asia and we expect the market to grow even more because of our new trade relations with China.

The \$30 billion American agricultural export business is essential because it gives our farmers a market for their abundant production.

American farmers are proud of it because it provides needed food and fiber for other peoples of the world and because it helps to reduce America's trade deficit.

But as a farmer and a cooperative member, I am disturbed by some statistics in our agricultural export trade.

Those statistics tell us that farmer cooperatives are not getting an equivalent share of the export business as related to production by cooperative members.

This is disturbing because more than 80 percent of our farmers belong to at least one farm cooperative.

The U.S. Department of Agriculture tells us that cooperatives account for nearly 60 percent of all grain movement up to the point of the ship; but cooperatives share in less than 10 percent of the business once the grain is put on a ship.

Actually, cooperatives are getting only \$2.7 billion of the \$30 billion annual agricultural export business.

You might say that we are missing the boat most of the time.

Farmers become members of cooperatives because they believe they thereby can minimize cost of supplies and credit and can maximize their marketing returns.

From experience gained through the years, farmers believe that they would improve marketing from international trade if commodities were being handled by their cooperatives. Yet cooperatives are handling less than 10 percent of grain exports and only one-fourth of cotton exports.

Farmers inquire of cooperative leaders why they share so little of export markets. Cooperative leaders have to face up to the question, since they are aware that exports will probably account for a growing share of the total market in the last two decades of this century.

There is no simple answer to our lag in the export market. There are probably a variety of reasons, some of which are beyond our control.

But we believe there is one factor which your subcommittee can help us to overcome through passage of H.R. 4782. This bill would improve our competitive position in the world market by giving us a chance to process our international transactions and financing in one place, a bank for cooperatives.

If agricultural cooperatives are going to compete in the international market of the future, we need to work with people and institutions who understand cooperatives and agriculture.

We must work with people we know and who know us, to handle our international letters of credit.

Since they already handle our financing needs and since they work with us on a wide variety of management and educational programs, the bank for cooperatives provides a natural facility for this greatly needed service.

We believe the banks for cooperatives could save us time, money, and effort if they could provide one-stop international service for us, just as they have saved us time and money and effort by providing domestic financing.

This new service is not going to increase our share of the market overnight. As I said earlier, there are many other factors involved in our having only a small share of the market; but it would remove some of the barriers to our progress and would make us a bit more competitive.

We know of no valid reason to continue prohibiting the Banks for Cooperatives from providing international financing services to its members. The service is simply a new need in a constantly changing market. It is needed to help cooperatives remain competitive in one of the fastest growing segments of our market.

The Federal Government is providing numerous incentives to help small business firms compete in the international market, including China.

We believe it would be in keeping with that philosophy to allow Banks for Cooperatives to finance agricultural export transactions by other cooperatives.

We might note at this point that there are several firms who are doing more agricultural export business than all the cooperatives combined.

If there is opposition to the Banks for Cooperatives entering the field of international financing of agricultural commodities, it is likely to be by international trading firms.

They will likely base their opposition on the thesis that this would create a source of credit to which they would be denied access.

I would refresh your memory in that many international firms are foreign based, not even domestic corporations, and that they have a multitude of connections, business and financial, for access to foreign trades that are not available to domestic cooperatives.

Further, this new dimension of financing for the banks for cooperatives should be appealing to the members of the cooperatives and the average citizen to the extent that its use would lessen Government credit programs and guarantees of the export-import bank and the CCC through its GSM-5 program.

Current trends indicate that the public would like to minimize Government influence in areas that can be served by the private sector.

In summary, we urge your subcommittee to authorize the banks for cooperatives to assist our marketing cooperatives to compete in the world market.

This assistance would help both the cooperatives and the farmers who depend upon the cooperatives. It would give farmers a greater opportunity to share more profitably in the international agricultural market that will be so important in the future.

Mr. Chairman, I appreciate the opportunity of appearing before you today and would be happy to respond to any questions.

Mr. JONES of Tennessee. Thank you very much, Corley.

Mr. Leemon Colyer of Somerset, Ky., is the next witness and then Mr. Stan Herren of Yazoo City, Miss., will conclude the morning's hearings.

We are certainly delighted to have you, Mr. Colyer.

STATEMENT OF LEEMON G. COLYER, FARMER, PULASKI COUNTY, KY.

Mr. COLYER. Thank you, Mr. Jones, and I want to say that I appreciate this opportunity to appear before you. I count it an honor, and I want to commend you for your effort to bring Government down to the farmers. I believe that you're doing a great service for us.

I am Leemon Colyer, a farmer from Pulaski County, Ky.

I guess we would be considered, most of us in that area, as small farmers in comparison to some of the statements that I have heard here today; but nevertheless, I believe that sound credit available to small farmers is just as important as it is to large farmers in their way of living. I own and operate a farm, about 300 acres located in southeastern Kentucky, on which beef cattle, tobacco, hay, and grain is produced.

A few years ago we were operating dairy on this farm, and due to health requirements and other expenses, I would have been forced to build new milking facilities and go to more expense, and this would have increased the debt load on the farm to such an extent—and with the price of milk at that time—it would have been almost impossible for me to have met these payments. So the dairy cows were sold and I now have beef cattle and producing grain.

I have a storage facility of approximately a thousand tons of silage on the farm. This was built several years ago and the cash outlay that was required was nothing in comparison to what it is now. In fact, if I had to do this today, I don't believe it would be possible to make the payments or pay for this in the 7 years that is allowed by production credit.

I also have a son who is farming full time. He produces grain and tobacco, and has a small feedlot on which he feeds steers.

Not only he, but other young farmers and older farmers like myself, are finding it almost impossible to meet production costs and to make payments on farm storage facilities, harvesting equipment, and maintain a decent standard of living.

I've been a member of the Cumberland Production Credit Association since 1934. That's a long time. And I am proud to say that during the early 1930's—not many people, I guess, here today remember the 1930's. I do, and credit was almost impossible to obtain at that time.

Production Credit came to the farmers' rescue and served them well during this distressing time.

I've always thought of Production Credit as an organization established for the purpose of meeting the farmers' needs with sound credit. I believe this should continue, but with the changing times, inflation, and the greater cost of operation, the needs of the farmers have changed to where they need a longer period of time to repay these loans.

I support the farm credit bill. However, the greatest need of farmers today in our area, in addition to sound credit being available, is a longer period of time to repay these loans.

In order for us to maintain our farms, provide the necessary storage facilities, produce crops and livestock, provide support for our families, and repay our loans, we desperately need a longer period for repayments.

I respectfully request on behalf of the farmers of southeastern Kentucky the law be amended to permit Production Credit Associations to make loans for capital purposes with maturities up to 12 years.

In addition to this statement, I just have a few words that I'd like to say.

I want to say that I believe that I understand the needs of our farmers because I have been in contact with them for many years. In fact, I was in the ASC office for 34 years and have come in contact with practically all the farmers in the county.

I have been on the Soil Conservation District Board for approximately 18 years and have served on the State Commission for Soil and Water for about 12 years and have been on the PCA Board for about 18 years and now I'm chairman of the board.

I believe that I do understand the needs of our farmers, especially in this area, and I certainly count it a privilege and thank you for this privilege of coming before you and making my presentation.

Mr. JONES of Tennessee. Thank you very much, Mr. Colyer, for a very fine statement. We do appreciate it.

Our next witness is Mr. Stan Herren of Yazoo City, Miss. Mr. Herren is vice president of the Delta National Bank and chairman of the Agriculture Committee of the Mississippi Bankers Association.

STATEMENT OF STANLEY A. HERREN, VICE PRESIDENT, THE DELTA NATIONAL BANK OF YAZOO CITY, YAZOO CITY, MISS.; CHAIRMAN, AGRICULTURE COMMITTEE, MISSISSIPPI BANKERS ASSOCIATION

Mr. HERREN. Thank you, Congressman Jones, Congressman Madigan, and the subcommittee staff.

I am Stanley Herren, vice president of the Delta National Bank of Yazoo City, Miss. I serve as chairman of the Agricultural Bankers Committee of the Mississippi Bankers Association and as an agricultural action banker with the Agricultural Division of the American Bankers Association. I appreciate this opportunity to present my views regarding the proposed amendment to the Farm Credit Act of 1971, as contained in H.R. 4782.

Congressman Jones, on behalf of many of the people that I work with, we appreciate the diligence and the effort and the fine bill that is now before the House with regard to comprehensive Federal crop insurance. We know that if you put the time, the effort, and the wisdom into this proposed amendment that you did into that legislative effort, the results will be for the betterment of American agriculture. The wisdom that needs to go into reviewing the proposed amendments should be the same diligence and the same wisdom that went into reviewing the comprehensive Federal crop insurance program.

Mr. MADIGAN. Mr. Jones did an excellent job of that.

Mr. HERREN. And we appreciate it; it was very much needed.

Mr. JONES of Tennessee. Mr. Herren, I must admit, however, that the ranking member of this subcommittee was a great contributing factor, also. He worked out some of the real sticky problems.

Mr. HERREN. I don't have the relationship with the ranking member that I do and know of your background.

Mr. JONES of Tennessee. I appreciate what you said and I want to get you to start a campaign for H.R. 4119.

Mr. HERREN. I think you can call on the American Bankers Association for that help.

I'm sure that you are absolutely familiar with the commercial banks' interest in American agriculture—even though some of the positions we may take here today may seem that we're not, that's far from the case; and I know that you personally know that. I hope Congressman Madigan also has the same appreciation for America's commercial banks.

In January 1979, USDA information shows that our Nation's commercial banks extended approximately 27 percent of the total outstanding farm debt. Two-thirds of our Nation's 14,000 full-service banks are in communities of less than 25,000 people. Additionally, half of these banks are in towns of fewer than 5,000 residents. Among the latest ABA estimates, according to these estimates, nearly 60 percent of the community banks list agriculture as the single most important source of income in their community.

The bank that I work for is a \$63 million asset financial institution. It is in the predominantly agricultural trade area. We are in a city of approximately 13,000 and service a trade area of approximately 42,000 people. As of today, our assets reflect total loans of approximately \$32,250,000, of which approximately \$15 million are agricultural loans.

We feel that these figures reflect our dedication to meeting the legitimate needs of our community and providing the capital needed to help all economic sectors of our community grow and prosper. Although we are the largest bank in our trade area, we recognize the importance and the need for strong viable financial institutions within our trade area.

The banking community recognizes that the Cooperative Farm Credit System plays an important role in providing the needed agricultural credit. In January 1979 USDA figures on farm loans reflects the importance of both the Production Credit Associations and the Federal Land Bank Associations to our American farmers. Combined, they provide approximately 29 percent of the total farm loans outstanding. Additionally, both institutions have experienced growth during the past 10 years of approximately 300 percent.

I feel that we must recognize the outstanding job that these institutions have done in the lending areas for which they are organized.

In 1971 Congress passed the Farm Credit Act of 1971, which authorized a major modernization of the Cooperative Farm Credit System. It reorganized their loan authorities, made it possible to have joint lending arrangements with banks, and provided new authority for a limited amount of lending for nonfarm purposes, including rural housing and farm-related businesses. The system was also authorized to provide farmers financially related services appropriate to on-farm operations.

In 1971 the banking industry opposed legislation which expanded the Cooperative Farm Credit System loan authority beyond the direct financing of farmers.

Additionally, the ABA stated that the Cooperative Farm Credit System members should be taxed like private sector financial institutions and subject to the same State usury laws.

Even then, ABA supported those proposals that would enable the Cooperative Farm Credit System to modernize its procedures and operate more effectively as a source of farm credit.

Today, we support, as we did in 1971, those amendments which modernize the Cooperative Farm Credit System's methods and procedures.

However, there are certain provisions that concern the banking community because of the new directions being chartered for the Cooperative Farm Credit System, while special treatment under the present laws remain within the legislation.

Both the American Bankers Association and the Mississippi Bankers Association have reviewed the proposed amendments and have adopted positions opposed to these amendments because of the belief that it would create further competitive inequality between the private sector, including commercial banks, and the Cooperative Farm Credit System.

Because of our basic support for the Cooperative Farm Credit System and its efforts to improve its ability to provide needed credit to America's farmers, we believe that this committee should give serious consideration to the few objections that we are raising.

These include the following:

One, cooperative eligibility for financing from banks for cooperatives. We believe that there should be no further liberalization of the farmer-member eligibility requirements. The present 80 percent standard allows for substantial amounts of nonfarm income to be directed through the cooperative because of its cooperative membership makeup.

We see no real need for the lower standard and feel that it is one more move away from servicing agriculture toward servicing the general public with a credit entity or institution that was established to service agriculture.

Two, financing processing and marketing activities of farmers. Although this authority to the Farm Credit System is not intended to qualify any new borrowers, it does provide new authority to finance off-farm businesses in which a substantial portion of the product processed or marketed is not that produced by the original borrower.

We believe food processing and marketing financing needs are being met adequately through existing services provided through the present competitive private sector institutions.

Three, banks for cooperative financing. Congressman Jones, let me at this point state that for a young aspiring Mississippian to take issue with Mr. Corley Cortright, I feel mighty low. But I must proceed because of my beliefs in this area.

We believe that there is insufficient justification for the banks for cooperatives to offer export financing. We view this as a further extension of the Cooperative Farm Credit System's activities into the private sector. Other organizations, including money market centers and regional banks with years of experience in export financing are intensely competing for this business.

The present export credit system has fully supported the rapid increase in farm commodity exports.

We encourage cooperatives to seek export opportunities; however, we feel that commercial banks are adequately providing financing to meet the expanding export financing needs.

Four, State usury laws and truth-in-lending laws. The banking community is burdened by State usury and truth-in-lending requirements every day; and if we could get them done away with, we would totally support it.

But to our knowledge, most Cooperative Farm Credit System member institutions presently claim exemption from most State usury laws, claiming to be a federally chartered institution.

Cooperative Farm Credit System member institutions compete freely with other lenders and should be subject to the same laws in these areas.

Exemptions for Farm Credit System institutions allow special advantages and contribute to the competitive imbalance with banking and other lenders.

We believe the Cooperative Farm Credit System should join banking and the banking industry and seek relief for all lenders, not its own special exemptions. Any such relief for the Cooperative Farm Credit System should be coupled with similar relief for all other lenders.

I would go back to Congressman Bill Alexander's quote this morning, "What's good for the goose ought to be good for the gander."

Five, taxation. We believe that these institutions have reached a degree of maturity that enables them to bear a share of the tax burden comparable to that of other lenders with which they compete daily.

The financial strength of the Cooperative Farm Credit System is reflected in its successful performance and its present market share.

Six, incorporation of Cooperative Farm Credit System services. This proposal liberally defines the powers of such corporate entities, permitting the performance of a wide range of services.

It is difficult to evaluate this general authority, but it could be interpreted to mean the Cooperative Farm Credit System could own and operate many types of nonfarm businesses under the auspices of Federal incorporated entities.

There could be an unwarranted encroachment into the private sector by corporations benefiting from special ties to the Federal Government.

Seven, increase in the Federal Land Banks' 85-percent loan-to-value lending limitation. Bankers understand the reasoning for this proposed change; however, we feel that it could significantly contribute to serious inflationary pressures on land prices.

Eight, banking community proposal. Banks are finding it difficult to obtain access to the Federal Intermediate Credit Bank's discount services. Therefore, commercial banks seek equal access to the FICB's discount facilities.

This requires the same treatment for both commercial banks and the PCA's in the type and maturity of loans discounted; loan to capital requirements equal; and the availability of general services provided, including loan data processing and insurance.

Additionally, it is felt that a standardization of practices with regard to OFI's, participation agreements and discounting services should be established to insure comparable treatment from the various district banks.

There are two proposals in this legislation that would encourage banks to work jointly with the Cooperative Farm Credit System in servicing the farmer's credit needs, this being one: Providing authority for Federal Land Banks to participate in farm loans with commercial banks. I encourage the adoption of this part of the amendment.

Two, authorizing Production Credit Associations to issue participation certificates to commercial banks and other lenders.

We also totally support this part of the proposal.

In conclusion, our major concern regarding H.R. 4782 is that this bill would create further competitive inequities between the private sector, including commercial banks, and the Cooperative Farm Credit System.

We do not oppose the housekeeping provisions in the proposed legislation which are designed to enable the rapidly growing Cooperative Farm Credit System to be more effective.

We do stand firm in our opposition to further expansion of the Cooperative Farm Credit System into the nonfarming sector, for such expansion will increase and magnify the inequitable competitive advantages of the Cooperative Farm Credit System.

Congressmen, I am grateful for the opportunity to express these views. I apologize for the length, but I think that the points needed to be made at this meeting in Memphis, Tenn.

I hope that the fine tuning of this legislation will result in action in the best interest of our Nation.

I will be pleased to respond to any questions.

Mr. JONES of Tennessee. Thank you very much, Mr. Herren. It was a very good statement.

If all the witnesses who have appeared will take a front seat, we'll have a few questions.

Gentlemen, we're not going to take but a few minutes here to discuss this part of the hearing that's been held this morning because I must admit to you that you did a very thorough job in making your statements.

Mr. Madigan and I have just a question or two we might ask, but mine are mostly going to be in the form of observations about what has been said this morning, and then I'd like for any particular person who would like to respond to do so. I've got a question or two that I may ask later.

The majority of the people who have spoken in behalf of the PCA's today have emphasized the need for a longer term loan than PCA now allows. Some have said 10 years; I believe somebody said 15 years; and one gentleman said 12 years.

Do any of you have any further comment on that subject? If you do, just let us hear from you.

Several of you said something about the removing of the 85-percent limitation on land lending. I quite well know that Mr. Herren, the last man testifying threw out a thought that might be detrimental to land lending and farmers by going beyond the 85-percent limitation. I well remember what he said, but I think the majority of you who spoke on that subject favor the removal of the 85-percent limitation.

A number of you support the bill in whole, it seems, H.R. 4782, plus an amendment for a longer loan, and a good many emphasized the need to do something about the export transactions.

Eighty percent of the farmers today belong to at least one co-op. Who said that? Was that you, Mr. Cortright? That was news to me. I didn't know what that figure was, I must admit. I'm glad to hear that.

I've been at the other hearings that we've been holding, but this one has dealt with some subjects that we didn't cover at the other hearings, especially the PCA longer term loans.

We've had some degree of discussion about exports; not much, but some. We especially did at Hutchinson, Kans., but by and large, the testimony that has been taken here is pretty much the same that we've heard in other places, which means that farm problems are national and wherever you go, they exist.

They may not be exactly the same, but they all add up to be the same because it's credit and repayments and things of that sort and the expansion of our overseas markets has been emphasized in some of the hearings.

I don't think, Ed, that I have a single question that I need to direct to any person who is here, and at this point I yield to you for any comments you want to make.

Mr. MADIGAN. Mr. Chairman, I operate at a little bit of a disadvantage because when the Farm Credit Act was worked on in Congress in 1971, you were a Member of Congress and I was not. I come to this quite a bit behind you, and I certainly want to acknowledge that I do not have the understanding of this that you do or, for that matter, that people in the audience do.

I'm a little bit concerned about a proposal coming to us that is so broad and has so many different things included in it, and I have to say that my concern about that wasn't alleviated very much at this hearing this morning. I think the witnesses testified to two or three different things that they felt were important to farmers; but there are 26 different proposals in this legislation, and a lot of these things either were not addressed or were just skipped over.

For example, I didn't hear anybody say why present sources of credit aren't adequate to finance our agricultural exports. I didn't hear anybody say that American agricultural exports were operating at a disadvantage or give any evidence of any sales having been lost or any money not being able to be borrowed when it was needed.

Nobody really said anything about that at all, but this obviously, to me at least, is an important part of this legislation. I wonder if anybody wanted to give any evidence of why this is necessary.

Mr. CORTRIGHT. I would make two points. One of them is a matter of experience or almost lack of experience, I would say. We sold 20,000 bales of cotton this past year, the first sales to the People's Republic of China, and thought it was clear on that letter of credit in New York, but somewhere in the fine Chinese of that contract it said that thing had to be cleared by a bank in Peking.

We were right at 8 weeks after we had delivered the letter of credit in New York to get our money.

To make that point: If we had one-stop financing business, we could run right through the Bank of Co-ops and they would have had offsetting balances with the bank in Peking and we would have had our money.

We're still having a controversy with them over that point at this time.

Mr. MADIGAN. That was probably at the time when the Treasury Department was negotiating with the Chinese about the frozen assets.

Mr. CORTRIGHT. It was. It was prior to that time.

Mr. MADIGAN. I think there was some \$50 million of Chinese money on deposit in American banks and a lot of land in China that had been expropriated by the Communists in 1949 that belonged to American churches and the American Red Cross and other things.

Mr. CORTRIGHT. The other point I would bring out in why banks of cooperatives should get into it is the very reason commercial banks are in it, because it's profitable. But commercial banks don't funnel their profits back to the producer; banks of cooperatives do funnel their profits back to the producer. To maximize their earnings from international marketing they need to go through a cooperative bank.

Mr. MADIGAN. The second point is better than the first, but I appreciate them both.

Mr. JONES of Tennessee. Mr. Short, would you have anything you would want to add on that?

Mr. SHORT. Yes, sir. I'm not certain whether the flexibility now exists for maybe commercial lending to play a bigger part in export financing.

I do know that in the case of Riceland Foods that our average daily loan balance with the St. Louis Bank for Cooperatives is about \$126 million.

When we think about prospective needs for the future, as I understand, the flexibility that will be given under these amendments if favorably acted upon will not only have to do with the areas covered by this gentleman, but it also would enable Riceland Foods to put together business that would originate from any source, possibly also Riceland Foods' members' business, and also might give us the flexibility to put together a shipment of rice that would also be an origin from some other areas, from the Middle East maybe, or the Far East.

I don't know whether this type financing is available now, but I do know that our working relationship with our cooperative bank and the amount of loan volume that we do with them, we're much more comfortable working in that area.

Mr. MADIGAN. Mr. Chairman, I would have to ask essentially the same question with regard to expanding activities to include marketing and processing activities.

Again, I didn't hear anybody offer any evidence that the present financial arrangements that are available are in any way inadequate or anyone is suffering because of any inadequacy. I wonder if somebody wants to speak to that?

Mr. JONES of Tennessee. I'm wondering if any member of the FCA organization would like to speak to it who has not been a witness this morning, if we have anybody in the audience who would like to say anything to that effect?

Mr. CORTRIGHT. I don't know the technical details of it, but I know we are joining with commercial banks and jointly financing some first-stage processing in our area under the current legislation.

Mr. MADIGAN. I assume we have an open record?

Mr. JONES of Tennessee. Yes.

Mr. MADIGAN. Well, I would encourage you gentlemen for my part, and I want you to understand that I represent some farmers. I represent some very good farmers, and I also represent some very good insurance men and some very good bankers and a lot of other people.

I think that anything the government does or encourages ought to always have as a criteria the assurance that we're treating everybody fairly. So if you have statistical data to present to this open record that will be kept open and you can add things to it as you choose that shows the need for these things beyond what has been demonstrated this morning, it would certainly be beneficial to me in my deliberations.

Mr. Chairman, I'm not going to pursue that any more.

Mr. JONES of Tennessee. Let me re-emphasize, then, just what Ed Madigan said, if you have something that you could contribute to information that would help the committee when we get back, we'd appreciate your sending it to us so we could make it a part of the record, because we are not out here just for our health.

We're out here trying to write a bill that will serve the needs of this country. We want to do it like it should be done.

I'd like to clarify one thing myself here. You might be of the opinion that because I'm chairman of the subcommittee that this is my bill. I want to make it loud and clear that this is not my bill. My name doesn't appear on the bill except that I introduced the bill by request of the Farm Credit Administration.

I would not subject myself to introducing the bill with which I, too, have some disagreements. I've expressed them and I'm going to continue to express them until we get through with the writing of the bill; and I think, Ed, you feel the same way about it and other members of the subcommittee do, too.

As an illustration, I've talked to the Governor and to the Board and gotten nowhere about this insurance situation. I don't like it. I'm going to admit that and tell you that I object to it.

I object to even the pilot programs to some extent, and I thought that when we updated the 1971 act that we made it fairly clear in the report that that's the way it was supposed to be.

We have no objection to credit life insurance. Surely they ought to be permitted to write that. We all need it who borrow money. Most of us do, at least. But for them to engage themselves in another profession is something that I'm going to be opposed to until I'm convinced that I'm wrong.

Mr. DAVIS. Just one brief statement—I don't know if this is a reason that we don't have adequate financing. We do, but I think a good example of what can be done when farmers have no rules or no ceiling over their head is the American Soybean Association and what it has done worldwide to promote soybean sales and exports and what that part contributes, I think, to our balance of trade in this country.

I think we're exporting nearly half or more of our soybeans and I think we have more than half of the export business of soybeans in the country.

I think this is an example of what farmers can do with a direct shot at financing these type of things. I think that's an example of what we can do if we get some of the rules that limit us in these other ways.

Mr. MADIGAN. Could I ask one question? I think it was you who testified about the young farmers. You talked about removing the 85-percent limitation on the loans.

Mr. DAVIS. Yes.

Mr. MADIGAN. I confess I don't know what's going on with Tennessee land prices, but in Illinois you can't hardly buy an acre of land that's any good for less than \$3,500, and you can't pay for it at \$3,500. It won't pay for itself. You have to have other land. You have to be averaging the cost of your land in order to be able to buy it and pay for it.

So when you talk about a young farmer coming in and buying this land, I assume that's a farmer who doesn't already own some other land and who isn't going to be able to average his land cost over what he's buying and over what he already has.

If we take that 85-percent limitation off, if we construct something whereby he's actually able to borrow 100 percent, is he ever going to pay for it?

Mr. DAVIS. He's going to be renting enough land, more than likely, that he doesn't have such a high payment. He's going to have to make his living on the land he rents, but through inflation, he'll pay for this land that he's buying.

Mr. MADIGAN. I don't understand.

Mr. DAVIS. This is the only way you can afford to buy land that your interest is higher than your income off of it is going to be.

If we don't have this, as I see it, there's no young newer people going to be able to enter this industry. The only ones who can buy land are the people with a lot of money with high paying jobs or the people already established who have a lot of land that they own already.

This may be good for agriculture for a while, but where's the future 20 years from now if we don't have a way for the young people who want to come in to it.

Mr. MADIGAN. There's a fellow in my hometown that sells used cars and he advertises that he loses money on every car that he sells. Somebody said, "How do you stay in business?" He said, "Volume."

And you say that the young farmers are going to get well on this land through inflation. I don't understand that. That inflation doesn't put any money in the bank. It inflates the value of the land but that isn't reducing their payment on the land and it isn't increasing their income from the land. So how do they get well with inflation.

Mr. DAVIS. Today, you're talking about buying a farm or some land today at these high prices, it doesn't; but in 5 years from now the land that you bought today that was too high, you're paying for it at the same thing that you're giving for rent on other land.

We can look down through the last 15 years and that's the way it is. I say stability over the long haul means that a farmer is going to have to own part of the land that they operate; although as you say, there's no way to look at \$3,000 an acre land and see how that will justify itself today.

Mr. MADIGAN. Thank you.

Mr. BURRELL. I'm Tom Burrell. I would like to offer some information with regard to the questions that the Congressman just made mention about, particularly as it relates to young farmers and buying land in general.

I think that one of the strategies that would have to be implemented also is look at the purchase of land relative to what other alternatives that an individual has.

You know, basically, an individual would choose according to the alternatives that are in favor to him.

On the other side of the coin, I think, to the high price of land for sale is what is the rate of return on the amount of money that we spend for rent. I think we're going to have to strike a balance. I concur with Mr. Davis when he said the volume, not so much in the land that we buy, but we must have x numbers of acres with the cash flow necessary to pay for those number of acres that we're going to buy. I will concur with you also when you can't pay for an acre of land on a one-on-one basis because the proceeds in terms of the cash flow from a crop will not have the repayment, as such.

But if we will take into consideration the additional number of acres and the cash that flows from these additional numbers of acres relative to the alternative of renting land, I'm saying that the repayment on the \$3,500 may have a higher rate of return than the payment on rent.

The repayment of the maturity composition of the debt may indeed require an extended period of time for financing land ownership.

Mr. JONES of Tennessee. Anyone else have any statement they would like to make? Anyone in the audience?

Thank you for being here. There are a lot of people I would like to personally recognize, but I can't do it because I'd be getting in a lot of trouble; I'd overlook somebody.

We appreciate your being here.

Dr. Phil Mummert is the first witness at 1:30.

[Whereupon, at 12:25 p.m., the hearing was recessed, to reconvene at 1:30 p.m., the same day.]

AFTERNOON SESSION

Mr. JONES of Tennessee. Gentlemen, we will come to order.

Our first witness this afternoon is Dr. Phil Mummert, the director of planning for Memphis State University.

Dr. Mummert, we're delighted that you are here. We appreciate the fact that you could come and give us some ideas on planning and conservation.

STATEMENT OF PHILIP J. MUMMERT, GRADUATE DEPARTMENT OF PLANNING, MEMPHIS STATE UNIVERSITY, MEMPHIS, TENN.

Dr. MUMMERT. Thank you, Congressman Jones. It's a pleasure for me to be here, and I'm glad to have the opportunity to present some of my own ideas.

I have submitted a formal prepared statement to your staff and I would like to at this time only highlight some of what is in the statement, as well as give a few observations.

Mr. JONES of Tennessee. Very good. We'll make the statement a part of the record, as well as your remarks.

Dr. MUMMERT. I'm Philip J. Mummert and am a planning professor at Memphis State. I'm an urban and regional planner, and you may be wondering why I appear before an agricultural subcommittee. Primarily because some of my concerns regarding the approach we take to help improve the Nation's soil conservation needs and reduce the soil erosion problems.

I needn't mention that the situation in terms that farming and agriculture is involved in today is a quite complex sort of situation, especially when it comes to conservation, soil loss due to erosion, energy consuming in farming inputs, as well as things such as the reduced fertility of soil all mean and all threaten the ability to sustain production over a lengthy period of time, in the long run.

In addition, I would like to say that also agricultural issues, agricultural problems only seem to be magnified and complicated and seemingly more difficult to resolve when they are viewed within the context of a broader range of national problems and issues, such as increased population and industrial demand for a limited natural resource, the need to protect our environment, to improve waste management processes, as well as rising inflation and costs.

My first point is essentially that I feel that an approach is needed to improve our soil conservation needs which is comprehensive.

I don't think it's unknown to anyone probably in this room that we tend to solve problems in this country, whether it be at the national level or the State or the Federal, trying to pick out one problem at a time and approach each problem via one or two agencies at one time.

I think simply, because of my training as a planner, that a comprehensive approach or a broader perspective to soil conservation needs may be able to uncover some new areas and give us the vision and the new ideas that will be necessary to not only try to improve soil conservation, but also to improve agricultural production and reduce farming costs.

I think when we take a broad perspective we can see that just using mechanical means, engineering means for example, such as terracing and drainage and many of the best management practices that are now used which are important, but are not enough; and that if we're going to make a serious attempt to reduce soil erosion, we have to deal with the soil structure itself; especially protect the soil, improve soil porosity and its water retention capabilities.

In an area like the mid-South with more organic matter in the soil, which is a mechanism through which we can improve soil structure, in rainy times more organic matter would increase, say, the tendency of the soil to receive water, rather than to send it away to a local or a nearby stream; and in dry periods, the effect would also be beneficial; however, the effect would be one of increasing the water storage capacity of the soil.

I think, therefore, there's a need to develop a national strategy that supplements current soil conservation measures and gives much more emphasis to the return of organics to the Nation's soil.

I have included some statistics that I've compiled in my statement that suggest that there are some reasons for concern within the mid-South, but I feel that there is need for some concern and reason for concern in other parts of the Nation, that organic matter is being depleted.

I cover some of its beneficial values in the prepared statement that I've presented to you.

Crop residue management, animal manures are two sources of organic matter that are common features of any soil conservation approach; but I'd like to suggest that we have a tremendous source of

organic matter, not only here within the mid-South, but anywhere in the country in the form of urban refuse, in the form of sewage sludge, as well as industrial organic wastes, especially the sort of organic wastes that are highly nutrient laden and come from industries such as the food processing sector.

Within the mid-South, the 105 counties centered around Memphis that span six States, including Missouri, Arkansas, Tennessee, Alabama, Kentucky, Mississippi, it includes both alluvial flood plain soils as well as lurge [phonetic] upland soils.

We have urban communities each year disposing or throwing away what I consider a resource, as much as 650,000 tons of organic matter, which primarily comes just from urban refuse and sewage sludge alone.

In addition, the nutrients in such a resource as sewage sludge are such that the mid-South generates as much as—or let's say enough nitrogen to support the production of approximately 200,000 bales of cotton a year.

I believe that an important aspect, maybe a new and innovative approach in terms of soil conservation, might be to try to move in a direction to take advantage of these organic materials, the fertilizing value or the beneficial soil restructuring values which have been well established and try to put them to use rather than spend tax dollars and the taxpayers' money to throw them away.

The Congress has moved forward under the clean water bill of 1977 to encourage the recycling of waste nutrients in waste water, the beneficial use in agriculture and silvicultural production, but I think that more is needed.

Greater emphasis may be on the soil conservation aspects of that sort of policy.

At the same time, we need to overcome two key obstacles, and those obstacles are, first of all, the tendency or the inclination on the part of many municipal waste treatment planners and engineers to view the waste disposal problem as just that, a disposal problem, and view the waste as waste and something to be thrown away as quickly as possible.

That attitude on the part of urban waste managers tends to influence also and tends to make a potential user of that resource react in a way that there is no way that he would—like such as a farmer, would want to use his land as a dumping site.

I believe, however, a change of attitude on the part of many engineering consultants and waste water treatment officials is important to accomplish some of the things that I am proposing.

The second major obstacle is simply that most of the agricultural research institutes, as well as some agricultural agencies, I think, have failed to realize the full potential of the resources that we have available; and I think that there's an important need to encourage as much as possible their understanding and involvement in terms of the potential of organic—urban-generated organic waste material for agricultural use.

In Memphis, especially over the past 2 or 3 months, there's been quite some discussion regarding a controversial disposal facility which is designed for the codisposal of sewage sludge as well as the city's garbage.

The purpose of the project, in addition to disposing of these wastes, would be to generate steam to provide steam and energy source to industries that could use it.

Codisposal of wastes through incineration and energy conversion are quite an attractive alternative to waste management these days.

Such approaches are being pushed very heavily by the Federal administration. They seem quite attractive and quite logical in light of our energy situation, but I think somewhat differently because they are not only very costly and technically risky, but of primary importance they are designed to destroy or eliminate the resources I'm talking about, not for just next year or 2 years from now, but for a long period of time, a 20- to 30-year period.

I don't think that the mid-South or any part of the country can afford to go over the next 20 to 30 years without having that kind of resource, whether it be sludge or potential organics in refuse available.

I would just simply like to conclude by saying that the approach that I've outlined to you and that you will see in the prepared statement, the five-point program, is not being offered by me as a substitute for ongoing soil conservation practices, but as a way to complement such efforts.

An important result of the approach is that its benefits would extend beyond the direct benefits of soil conservation.

I think that in making progress toward improving and maintaining the soil, that we would also be recycling needed resources, avoiding waste, conserving energy, and minimizing the harm to the natural environment.

The benefits and economies and the savings that would accrue by taking such a comprehensive resource conservation approach to our problem, including the soil erosion and the soil conservation needs, will be passed on to the farmer, as well as to all of us.

Mr. JONES of Tennessee. Thank you very much, Dr. Mummert. We appreciate your interest and the contribution that you have made. I look with a lot of interest to reading it.

I must say it's a new approach in a good many ways to the conservation of our soil. I'd like to talk to you a little bit more in detail about it sometime.

Dr. MUMMERT. Thank you.

Mr. MADIGAN. Mr. Chairman, could I ask three very brief questions?

Doctor, you indicated a knowledge of the Clean Water Act Amendments of 1977. Are you also familiar with the Resource Conservation and Recovery Act of 1976?

Dr. MUMMERT. In a general way; yes, sir.

Mr. MADIGAN. You talked about cogeneration and referred to Federal efforts there. Are you referring to the pilot projects that are authorized under that 1976 act?

Dr. MUMMERT. I'm not familiar with the projects that are authorized under that act. I am primarily familiar with those such as the codisposal plant in Memphis, which is primarily being funded under the clean water bill.

Mr. MADIGAN. You are familiar with the economic problems of cogeneration; the fact, for example, that in a pilot project in the city of New York it takes all the waste from a city of about 80,000 people

just to provide enough energy to run one small factory. You're familiar with those kinds of problems?

Dr. MUMMERT. Yes.

Mr. MADIGAN. I understood you to be referring to the cogeneration when you said—and I'm quoting you, "Designed to destroy the resources that we need for the next 20 or 30 years." I wasn't at all sure what it was you were trying to say there.

Dr. MUMMERT. I was referring in particular to the proposed Memphis project, which involves the disposal of sewage sludge along with garbage, which would be refuse-derived fuel and which would be used to dry and then incinerate the solid wastes.

The heavy metal contents—for example, the wastes—would be concentrated into ash. Most of the residues, of course, would be concentrated and carried away to a landfill.

I believe that the sludge just by being put into an incinerator and to be fueled and dried by another fuel, let's say, absorbs or consumes quite a lot of energy, which results in the wasting of that energy.

Putting sludge in a burner is very similar to putting wet logs on a fireplace, and I think that in our quest to develop new energy alternatives, we should not be just amused by the amount of energy or the fact that energy will be produced, but we should also be concerned about the net energy value and how much energy will be consumed through these processes.

I feel that by taking a substance like sewage sludge and viewing it for what it is, an agricultural resource with much potential, that by landspreading it or by using it for some beneficial purpose, whether it be reclaiming strip-mining areas or reducing soil erosion in critical areas, that what in effect is created is an energy conservation approach which involves the taking of solar energy to help decompose the material through photosynthesis and contribute to crop production, which is a much more energy-efficient, to me, approach for the use and disposal of sludge than the codisposal type of plant that we have in Memphis, or we may have.

Mr. MADIGAN. Do you know what the composition of sewage is? Let me make sure that you understand what I'm talking about. I'm referring to that substance that collects in the bottom of a watershed project or in a water supply project; any impoundment that drains off of agricultural land gets this silt accumulation in the bottom of it. It ultimately has the potential of filling the reservoir up and displacing the water holding capacity.

I understand that the Environmental Protection Agency won't allow people to take that silt out of those impoundments and put it back on the farmland, and since I understood silt to be topsoil that washes off the farmland, I've been at a loss to understand why it can't be put back on the farmland. Could you explain that to me?

Dr. MUMMERT. I'm sorry, Congressman, but I'm at a loss, too, when it comes to that policy.

Mr. MADIGAN. If you run across any information on that, I'd certainly appreciate your sharing it with me. Thank you.

Mr. JONES of Tennessee. Thank you, Congressman Madigan, and thank you, Dr. Mummert.

[The prepared statement of Dr. Mummert follows:]

PREPARED STATEMENT OF PHILIP J. MUMMERT, GRADUATE
DEPARTMENT OF PLANNING, MEMPHIS STATE UNIVERSITY,
MEMPHIS, TENNESSEE — "A COMPREHENSIVE APPROACH TO
THE RESTORATION OF AGRICULTURAL SOILS"

Gentlemen, it is a pleasure to meet with you this afternoon and present my views concerning the nations' soil conservation needs. My main purpose is to encourage a comprehensive regional approach to the soil conservation problem. Such an approach is one that would be designed to solve more than one problem at a time, involve new combinations of techniques that can bring the greatest range of benefits for least cost, and which views traditionally rural problems as interlinked with urban problems. A comprehensive approach can produce the programs necessary to bring about dramatic changes in soil health.

It was of great help to me that you selected Memphis as the site for these hearings, for it is the center of an expansive agricultural region which provides an excellent point of reference for what I wish to discuss. The soil is the most important natural resource to this region for it supports agriculture which is the predominant economic activity of the Mid-South. Memphis is a center for the marketing, shipment, processing, and distribution of agricultural products. Major industries within the Mid-South rely upon agricultural products as raw materials. Others provide goods and services used in agricultural production. Thus, a lot depends upon the health of the soil — the basic supporting structure for these activities. And urban areas, as well as rural areas have a stake in seeing that it be cared for.

The exceptional capabilities of the soils within the Mississippi Valley have been recorded and attested to through decades. A few excerpts from a major historical work published in 1920 exemplify the respect and strong confidence man has had for these soils.

Soil chemists have proclaimed the alluvial soil of the Mid-South to be the richest and most productive in the world, not even excepting the famous Delta

of the Nile. . . . The region . . . has the most fertile alluvial soil in the world and splendid soil in the higher regions . . . It is fast becoming the richest productive agricultural and livestock region in the United States . . . nowhere can be found a soil that responds so quickly to cultivation with a most generous growth of all kinds of vegetation.¹

Since 1920, the agricultural productivity of the region has increased dramatically, influenced greatly by such developments as improvements of yields of selected and new crop varieties through the use of fertilizers, irrigation, and pest and disease control—as well as by the quality of soil. By pointing to past trends, there are numerous reasons for one to be confident that agricultural productivity will remain high within this region.

But there has been sufficient reason for concern in recent years. For example, the following table reflects the nature of recent production trends within the Mid-South between 1970 and 1977 for the two predominant crops harvested. While it is dangerous to draw final conclusions or to fore-

COMPARISON OF COTTON AND SOYBEANS YIELD
PER ACRE FOR THE MID-SOUTH REGION—1970-1977

<u>Cotton (lbs./acre)</u>	<u>1970</u>	<u>1977</u>	<u>Percent Change</u>
Alluvial Valley	560	526	- 6.1
Uplands	510	467	- 8.4
Combined	545	512	- 6.1
<u>Soybeans (bushels/acre)</u>			
Alluvial Valley	22.8	25.9	13.6
Uplands	24.0	23.0	- 4.2
Combined	23.1	24.9	7.8

¹ For analytical purposes, the Mid-South region includes 105 counties encompassing an area centered upon Memphis, Tennessee and spanning portions of the six states of Alabama, Arkansas, Kentucky, Mississippi, Missouri, and Tennessee.

Data compiled from State Agricultural Statistics reports and USDA Statistical Reporting Service. County data has been aggregated by alluvial valley and uplands to account for important differences in the soils and topography of the two areas.

¹ C. P. J. Mooney, The Mid-South and Its Builders (Memphis: Mid-South Biographic and Historical Association, 1920).

cast future trends based upon such short-range information, the data does suggest that something is wrong. Data for the intermediate years has been omitted only to simplify presentation; however, if the data for these years had been included, they would show that what is occurring represents a general trend and not simply differences between a good year and a bad year. The data highlight a need to examine the conditions upon which such changes are based.

There are numerous possible causes for decline in cotton yield. Declining yield per acre may be an indication of change in the quality of the soils of the fields where cotton has been planted over the years. Organic nutrients in the soils may have been depleted through their cultivation over the years without suitable care for maintenance of soil fertility. The effect of artificial replacement of soil nutrients through application of chemical fertilizers and the use of harsh chemical pesticides may be producing long range negative effects on some soils. Increased soybean yields within the alluvial plain may only serve as testimony to the resilience of alluvial soils.

Known causes, such as poor farming practices in uplands areas have led to declining soil quality and resultant lower yields. Marginal sloping land cultivated without adequate conservation methods has accelerated erosion and loss of top soil. Serious erosion in the uplands of western Tennessee and Mississippi persists where forty to sixty ton losses per acre per year are common and some losses are as high as 200 tons per acre per year.

Continuing soil loss due to erosion, depletion of soil fertility, reliance upon energy - consuming farming inputs, and conversion of farmland to other uses are some of the key reasons for concern about the ability to sustain agricultural production at recent levels over the long-run. Such agricultural issues become magnified and complicated and seemingly diffi-

cult to resolve when they are viewed in relation to a broad range of national concerns such as increased population and industrial demand for finite resources (land, some energy sources, water, food); need for environmental protection and effective pollution abatement, and inflation and rising costs. In combination, these factors pose a potential threat to the achievement of long-term sustained production, economic stability, and protection of farmers from severe economic fluctuations.

The complexity of these problems demands a comprehensive approach to their solution. We need to assess the problems of declining soil health and excessive soil erosion within a comprehensive framework. I would like to present the key elements of a soil conservation program that might emerge should assessment of the problem be made within a broader context than has been typical. A bit of background will be necessary.

Soil erosion results from inefficient, overworked and dying soil. Erosion reduces the productivity potential of land by:

1. reducing the available water-holding capacity of the soil
2. slowing the infiltration rate thereby increasing runoff and decreasing the rate and amount of soil water recharge.
3. reducing the effective rooting depth, and as a consequence lowering the water-supplying capacity of the soil.

Soil erosion also increases production costs by destroying soil tilth, thereby increasing the energy requirements for tillage and increasing the seeding rates necessary to adequate stands.

Thus a key to the soil erosion problem (and in turn, productivity potential and reduction of costs) is soil porosity and water retention. If a way can be found to improve these two factors, then erosion can be

significantly reduced. Furthermore, other mechanical remedies such as terracing and drainage — while important — become secondary matters in dealing with the soil erosion problem.

It is widely recognized that organic matter or compost added to soil promotes soil aggregation and stabilizes soil structure. This improves the air-water relationship of soil, thus increasing the water retention capacity and encouraging more extensive development of root system of plants. Organic matter helps improve soil structure which counteracts soil erosion and also effects crop growth and yield indirectly by soil conservation and soil improvement.

Sources of organic matter include animal manure, crop residues, sewage sludge, urban refuse and industrial organic wastes. The use of crop residues and animal manures are familiar components of soil conservation practices which help supply organic matter to the soil for its improvement. Yet, the depletion of organic matter within the soils of the nation's most productive agricultural regions underscores the need to not only accelerate conservation efforts but to tap new sources of organics. The return of organics found in sewage sludge, urban refuse and selected industrial wastes could become a major element of national soil conservation efforts. Such "wastes" should be considered "resources out of place" with regard to the fact that a good portion of the constituents would exercise a beneficial effect on the soil and the crop growth, if applied to the land.

It is significant to note that with the 105 county Mid-South region referred to earlier, urban communities generate more than 630 thousand tons of organic matter contained in their refuse and sewage annually. Furthermore, this estimate does not account for the sizeable volumes of organic materials generated by the area's food processing and other industries with a high organic waste load. Yet, most of these materials are considered wastes and are thrown away or disposed, frequently at great expense to the taxpayer. These resources also contain varying amounts of nutrients and trace elements

with fertilizer value. For example, the estimated annual amount of nitrogen contained in sewage from urban communities within the Mid-South is enough to support the production of at least 205 thousand bales of cotton.

The fact that organic wastes have potential as a production resource is well established. With proper management, such resources can be put to use safely and help maintain the productivity of the soil and reduce soil erosion. Nevertheless, two key obstacles must be overcome if significant progress is to be achieved in making organic wastes available and beneficially applied to land on an expanded scale.

1. A major obstacle has been the inclination of municipal authorities to see refuse, sewage sludge and sewage merely as waste that should be disposed of as quickly as possible. When urban waste management is approached in this manner, potential users such as farmers, react accordingly and refuse to have their land used as a disposal site.
2. A more important reason for the failure to make composting and urban waste utilization an accepted method is the fact that agricultural research institutes and agencies have taken little notice of its potential. The involvement of these entities needs to be strongly encouraged to insure the success of organic waste use.

In light of this background, I wish to encourage this Subcommittee to seriously consider the development of an approach that is designed to overcome such obstacles and that can help encourage the recycling of urban organic waste materials for use in the improvement and conservation of the nation's soils. The kind of program I have in mind would begin as a demonstration effort within a number of selected regions of the country and would center around five major elements.

1. Provision of financial incentives to municipalities for the planning and construction of solid waste recovery facilities designed to convert the organic portion of the municipal solid wastes into a beneficial soil conditioner. These facilities could include equipment and processes necessary for separation and composting.

2. Provision of a tax credit for farmers and other potential users who agree to apply urban organic wastes to their land to enhance soil conditions and reduce soil erosion.
3. Provision of a guarantee to user-participants in the program to protect them from a long-term reduction in yield per acre. For example, such a guarantee could state that compensation would be provided in the unlikely case that the per acre crop yield in the fifth year of the program did not equal or exceed the average yield during the five-year period prior to entering into the program.
4. Establishment of a program of technical assistance, research and education involving appropriate existing agencies such an effort would focus on improving methods to achieve more effective use of organic wastes for agricultural purposes.
5. Administration of the approach by either an existing agency or a coalition of various appropriate agencies serving the region.

The approach outlined is not being offered as a substitute for on-going soil conservation practices, but as a way to complement such efforts. An important result of the approach is that its benefits would extend beyond the direct benefit of soil conservation. Thus, in making progress toward improving and maintaining the soil, we would also be recycling needed resources, avoiding waste, conserving energy, and minimizing pollution of the natural environment. The benefits, economies and savings that can result from taking a comprehensive resource conservation approach to our problems will be passed onto the farmer, as well as to the rest of us.

Mr. JONES of Tennessee. Our next witness is Mr. Tony Campbell of the Conservation League. Tony, welcome.

STATEMENT OF TONY CAMPBELL, TENNESSEE CONSERVATION LEAGUE

Mr. CAMPBELL. Congressman Jones, I'm pleased to be able to be here and have this opportunity.

I might begin by saying that the Tennessee Conservation League is a statewide organization with about 13,000 members, and we're the Tennessee affiliate of the National Wildlife Federation. The league's philosophy of operation is based upon the wise-use concept, believing that if we use our renewable natural resources in a wise way, we will have a plentiful supply for future generations.

Soil erosion problems, particularly in west Tennessee, are extremely serious, as you know, Congressman, and the league for many years has been very concerned about it.

Many areas of west Tennessee are experiencing a mass of natural resource problems, flooding, loss of extremely valuable bottomland hardwood timber, water quality, and the significant loss of our remaining habitat for wintering waterfowl.

In the opinion of the league, the root cause of these problems is soil erosion. As you are aware, some of the worst soil erosion in America can be found in west Tennessee. If we are to resolve the natural resource problems being experienced in west Tennessee, we must drastically reduce soil erosion.

In recent times, most of the programs designed to resolve these problems have been treating the symptoms and not the illness. I think we're speaking primarily of the fact that when the river is plugged up with silt, we dredge the river or drain the wetlands, this type of thing, instead of going back to the problem of trying to stop the erosion at its source.

We'd like to commend Congressman Jones for taking a strong leadership role during the past year to at least begin a strong attack on the soil erosion problem in west Tennessee, but it is our feeling that the current programs that are now set up will not be able to provide the solutions that we need in west Tennessee to answer these problems.

We feel that the soil erosion problem in west Tennessee needs a unique massive cooperative effort on the part of Federal, State, and local agencies, organizations, and the people; and I think one of the strongest things that we feel, Congressman Jones, is that it's going to take some changes in land use. It's our feeling that certain areas in west Tennessee that are being row-cropped at the current time, that we can't control erosion as long as they are row-cropped like they are now.

We hope that this committee and Congress will be able to develop some programs that will allow the landowners to put these areas back into a productive system, grazing, timber, but some use that would reduce the erosion.

I think that that's going to take some real strong incentives from Congress.

We would also hope that these incentives, though, would be set up in a way that they would require the landowner once he has

treated the land the erosion is minimized, to keep it that way; that the next time soybeans jump to \$5 a bushel, he doesn't plow it up again and plant it.

The league has tried very diligently. We've been in some arguments and lawsuits in west Tennessee over the recent years on how the problem should be solved. We want to assure you that we stand ready to work with you, Congressman Jones, as a Member of Congress, and the people of west Tennessee, in getting at the problem and resolving it in a way that's fair to all the American people.

Thank you.

Mr. JONES of Tennessee. Thank you, Tony. Can you stay until we've finished the testimony so we can ask questions?

Our next witness is Mr. Talmage Carihfield, Jr., of Ripley, Tenn., who's president of the Tennessee Association Conservation Districts, TACD.

STATEMENT OF TALMAGE CRIHFELD, JR., PRESIDENT, TENNESSEE ASSOCIATION OF CONSERVATION DISTRICTS

Mr. CRIHFELD. Thank you, Congressman Jones, and members of your committee. I appreciate the opportunity to appear before you today.

As I said, I am Talmage Carihfield, Jr. At the present time I am a farmer and I am a lifelong farmer in Lauderdale County, Tenn., which is 50 miles north of Memphis.

I am a cotton, soybean, and cattle farmer. I have been a supervisor of the Lauderdale County Soil Conservation District for 15 years. I currently serve as president of the State association, and am also a member of the board of the Obion Forked Deer River Basin Authority.

Mr. Chairman, I would like to submit to you today and to the members of your committee that contrary to some of the negative publicity that conservation programs are receiving, that these programs have succeeded to the degree to which they were conceived and to which they have been funded.

Simply stated, the scope of our problem has outgrown our program.

Until the early part of this decade we were a nation that consumed a large portion of our agricultural production. But then suddenly due to an upgrading of the world economic situation and an easing of "cold war" tensions there was an overwhelming worldwide demand for the products of America's farms. Changes in Federal farm policy, development of larger and more sophisticated farm equipment and the advent of new production methods made the American farmer the envy of the world.

American agriculture has never been stronger than it is today. With only 2 percent of the population the American farmer provides jobs for 30 percent of our Nation's work force. The production from one-third of our cropland goes for export to other nations. There is a good possibility that these exports may reach \$40 billion in 1979. But gentlemen, there are signs of trouble on the horizon.

With new fencerow-to-fencerow planting philosophy that evolved in this Nation in the early part of this decade, there also came tremendous increases in soil erosion.

In 1972 areas 8 and 9 of the Tennessee Association of Conservation Districts requested USDA through the Soil Conservation Service to make a detailed study of the erosion problem in the 14 northwest Tennessee counties of the Obion-Forked Deer Basin.

The results of this study were very startling. Average soil losses on cropland within the basin was 38.4 tons of silt per acre per year, with some land losing as much as 60 to 100 tons of silt per acre per year.

As a result of this depletion of our soil base, farmers have had to rely more heavily on the use of commercial fertilizers and production methods to maintain production levels.

Recent Illinois research indicates that for each ton of soil loss the American farmer experiences each year, it costs him \$5 to \$6 in plant nutrients alone.

With a nationwide soil loss average of 9 tons per acre per year, this means a cost to the farmers and landowners of the United States of between \$45 and \$54 per year in soil nutrients alone.

In 1972 the Congress passed the Water Quality Act, Public Law 92-500. It's suggested that soil losses would have to be reduced to 5 tons per acre per year to achieve the goal of fishable and swimmable waters by 1983 as had been set forth in the law.

Today, 85 percent of the farms of this Nation cannot meet this standard, according to a recent GAO survey. A conservative estimate of \$500 million has been made that would be required to meet this water quality standard in the 21 counties of west Tennessee alone.

Mr. Chairman, I sincerely believe that this Nation, both in the public and private sector, have begun to come to grips with this problem.

In the State of Tennessee in 1979 an estimated \$70 million will be invested in the application of conservation.

Over half this money will come from the pockets of farmers and landowners of the State. Each of our 95 soil conservation districts has recently upgraded its long-range program to pinpoint problems and needs.

The need for soil conservation is being emphasized in every possible way. Conservation problems and needs were discussed in detail at the Resource Conservation Act public meetings last year throughout the State with a combined attendance of more than 4,300 people throughout the State of Tennessee.

Our State rural development committee has made reduction of soil erosion its No. 1 goal for the last 3 years. All agricultural agencies in the State are cooperating in the effort to control this problem.

The most encouraging and promising effort to date was initiated by you, Mr. Jones. Some 3 or 4 years ago Mr. Jones and SCS State conservationist, Don Bivens, discussed the growing problems of soil erosion and deteriorating water quality in the area's streams.

Later Congressman Jones and TVA Board Chairman David S. Freeman talked about the seriousness of erosion.

On June 2, 1978, Congressman Jones called a meeting in his Washington office to launch a new west Tennessee soil erosion crusade. At that time State Conservationist Bivens and Dr. Billy J. Bond of TVA were asked to develop a proposal to reduce soil erosion, maintain crop production and improve water quality.

They developed a six-point program proposal which was accepted in subsequent meetings by all concerned. The program was then endorsed by the State Rural Development Committee, under whose broad leadership the program is being carried out.

The six items in the program to reduce soil erosion, maintain crop production and improve water quality are:

Demonstrational resource conservation management farms in 20 counties;

Small resource conservation management demonstrational areas, 1,000 to 2,500 acres. We have started with 2 and plan to expand to 20 if the funds will allow;

Accelerated information and educational programs on erosion control and water quality improvement in all our 21 counties;

Completion of soil survey in the seven remaining counties in west Tennessee which had not previously done so;

National ACP special project;

Large resource conservation management demonstrational areas in the range of 10 to 200,000 acres. Excellent progress has been made in carrying out this plan.

Twenty-three farms, totaling more than 11,000 acres are enrolled as demonstrational resource conservation management farms. Two farms per county will be added each year so that in the sixth year there will be 240 farms enrolled.

Small resource conservation management demonstrational areas have been selected in nearly all the counties. One of these in Gibson County was the site of a massive conservation demonstration on September 15, 1979.

More than 20 best management practices were applied on parts of five farms by some 600 volunteer workers during the demonstration.

Congressman Jones and Secretary Bergland were present. An estimated 5,000 to 7,000 people attended.

This demonstration was called Operation SOS, or Save our Soil. I understand that more than \$100,000 was donated by individuals, business firms and organizations to finance SOS. This was in the form of labor, machinery, seed, fertilizer, and other materials.

The information and education program has been greatly accelerated by all concerned agencies and organizations.

Three of the counties which do not have published soil surveys have appropriated funds to help facilitate these surveys.

The North Fork Forked Deer River Watershed was approved as one of the national special ACP projects in 1979.

The State Rural Development Committee later this year will select the large resource conservation management demonstrational area.

Another accomplishment in connection with the west Tennessee program was the development of a revised memorandum of understanding between USDA and TVA.

Secretary Bergland and TVA Board Chairman David Freeman signed this document on a farm in Gibson County, Tenn., on March 22 of this year.

This new agreement between USDA and TVA formalized work among the agencies to help stop erosion in west Tennessee.

Although we are enthusiastic about our accomplishments, we recognize that soil erosion is still an extremely serious problem.

The problem is so grave that catastrophic consequences will result to this country unless solutions to the problem can be found.

Mr. Chairman, we sincerely believe that there's not enough money in the Federal budget to cost share this kind of program, a program that will solve all the problems of erosion in our Nation.

We believe that a higher priority needs to be placed on conservation both within the Department of Agriculture and, certainly, by the administration and by the Congress.

The recent struggles that we have seen to get programs funded have indicated to us the seriousness of this problem.

We believe the thrust, the conservation thrust as we see it can be made in two specific areas.

One, the rural clean water program needs increased support so that problem areas can be targeted. We recommend reauthorization and extension of the program.

We recommend that it be funded the first year to the \$200 million level and the second year to the original \$400 million level, and further as the needs present themselves.

Demonstrational projects such as "SOS" need to be expanded on a nationwide basis. There are other various alternatives that I will allow my colleagues to discuss.

Mr. Chairman, I sincerely believe our Nation's conservation program stands at a level equal to our energy program of 20 years ago. If we are to avoid the same catastrophe we have experienced in the field of energy and if this country wishes to maintain its position as the economic leader of the world this problem must be solved. The Federal investment in conservation programs must be sufficiently increased.

I must emphasize that conservation is totally integrated with farm economics. The only long-range answer to the problem is to upgrade the farm economy of this Nation so that farmers and landowners are financially able to afford their own conservation. It is our duty as leaders in this movement to create such an atmosphere.

Mr. Chairman, in closing I commend you and your committee for the interest you have shown in conservation programs as demonstrated by this series of hearings. I would also like to point out that the public has never been more interested in conservation than today. It is time for a nationwide thrust in this area.

I appreciate the opportunity of appearing before you.

I'll be willing to remain and answer any questions.

Mr. Jones of Tennessee. Thank you very much, Talmadge, and let me add this to what you've said. Your association and you personally and all your people have been a great contributing asset to the whole program we've been trying to put together.

Our next witness is a citizen of this county, a good farmer and almost Mr. Soil Conservation himself.

He's been connected with soil conservation all my life and I'm glad that A. K. McCalla is here to talk to us representing the Tennessee Association of Conservation Districts. A. K.

**STATEMENT OF A. K. McCALLA, SHELBY COUNTY FARMER,
ROSEMARK, TENN.**

Mr. McCALLA. Thank you, Congressman Jones. I brought some water up here and I put some up there for you, and if we just had the soil, we'd have the whole problem put together in one stroke, I guess.

I want to make some comments before I present a short paper, not as long as Talmage's, on this matter, and I want to tell you first that I am a farmer in Rosemark here. I make a living with cotton and soybeans and it's been good to us. But the soil is erosive. As you know, it's one of the most erosive soils in the United States, and we have problems with it, real problems with it.

So in the short paper that I'll present it will talk about some of those problems and what it cost me to do this job of conservation on our farm.

Let me say in the beginning that it cost us from \$14 an acre to \$400 an acre to do conservation practices on the farm that I operate. When you talk about \$14 an acre, I can kind of understand that, but when you talk about \$400 an acre, I can't stand too much of that.

Let me tell you what the two practices are that do that. I flew in some Austrian winter peas to conserve the soil in the wintertime and some drilled soybeans. It cost me \$14 an acre.

I put in some parallel terraces with a drop outlet right below my house, Ed, so that I wouldn't have any ditches. I'm determined, Congressman, not to have ditches right around my house at any rate, and that cost \$400 an acre.

That's considerably widespread there, and when you average it out, in my judgment, you're going to run about \$100 an acre on the upland soils in Shelby County, and this is the point I want to make in regard to it.

In introductory remarks, I want to make one or two other comments. I served in World War II and my three sons served, one in Korea, one in Vietnam and one in Berlin, and I'm real concerned about the defense of our country. You know the budget is over \$100 billion for defense, and I'm for defense, but I'm also for about a couple of billion dollars to help this problem here.

I don't know how you can work it. We try to help you all we can and the people in this room try to help you all we can, and we talk to the Senators and the Representatives who are our good friends there; but how to get \$2 billion for this most important thing is beyond me. I hope you you can figure it out some way.

That would be \$40 million per State on the average, and this is a realistic figure. It's not even 2 percent of the defense budget, and maybe somebody can approach it on that sort of a thing on the floor of the Congress and in the Senate.

We've got friends in the Senate and we've got friends in the Congress, and you are two of them there who would present such a matter if they thought it had any chance of passing.

I hold out to you that this is in the realm of possibility. You know, many civilizations have fallen because the land just wore out. It just wasn't any more.

The second point I want to make is that a number of years ago we bought a farm that adjoined the home place. It had a gully in it big enough to bury a 2-ton truck in it.

I can point this out because we bought it. We didn't make that big a ditch. We don't like ditches. No landlord likes the ditches and gullies out there.

We straightened that field out and we don't have any gullies of that size now, but about 10 percent of the soil on that particular farm is gone. You know, there's no more topsoil, and that's a real problem because most of it was gone when we got it.

So these things are real problems and we've got to keep it in place, that which we do have.

The third point I want to make is this and, Ed. I think you'd agree on it. I think we all are convinced that west Tennessee is one of the worst erosive parts in the United States.

If you lose 40 tons per acre, in 5 years we lose an inch. By the end of this century, we'd lose 5 inches, right? When you take 5 inches off that topsoil, it won't make much.

The sides of those hills in the particular type of soil floats away at that rate. So we've got a real problem there and we need all the help we can in solving that particular problem.

The next point I want to make is that this is really an agribusiness community here, and I'm going to speak from Shelby County, and Congressmen, both of you, I'm going to speak from a standpoint of what the chamber of commerce gave me as figures. I could hardly believe them, but I'm sure that they've got some basis on it. They say that the agribusiness industry in this area generates \$5,400,000,000 worth of business.

The next thing that's closest to that is the manufacturing industry, and they say that in this area that the manufacturing industry generates \$579 million worth. That's a big jump down. \$5.4 billion down to not quite six-tenths of a billion. It goes on down the list and it says service for hotels, laundries, and so forth, \$409 million; and I'll just read a few others out on it. It goes on down to wholesale trade, \$347 million, and says the total payrolls in this county are \$2,244,000,000.

This really concerns me because I was born and reared in this county, as you well know, and this really concerns me because we've got a place here real important in the agricultural industry and 750,000 people, three-quarters of a million people living here and it creates a real problem.

So with this kind of a background I'd just like to present to you what I have said here in writing. I took longer than common to write this out, and I did two drafts on it.

So I'm going to give you the capsule. You needn't worry about it being long, and I'll proceed with this.

Almost 90 percent of my farm is used to grow soybeans and cotton. The rest is in pasture and woods. So I am vitally concerned about conserving my soil and water resources so that I may continue to produce food and fiber and at the same time earn a living from farming.

Shelby County is made up of highly erosive soil, as many of you know. According to recent reports, I can tell you that 50 percent of

the farms in Shelby County have severe erosion problems. Other farms suffer from water management problems of one kind or another.

The yearly average erosion rate in Shelby County and west Tennessee—and I'm glad I'm repeating this—has been calculated at 40 tons per acre. This is five times the national average and eight times the amount that we can tolerate if we hope to maintain our present soil productivity. If a drastic turnabout is not affected soon, the results will prove disastrous over the next half-century.

Most farmers that I talk to are aware of the cropland erosion problems and they are equally as concerned about the pressing need to find workable solutions to these problems.

Most of us are convinced that the answer is the application of conservation systems on all of our farmland. But while many farmers are ready to accept the sound concepts of installing some or all of the more than 20 best management practices, a lot of them just aren't financially able to pay for the sizable investment required to install the work.

I personally know that conservation farming reduces erosion and soil loss and water pollution. For example, on my own farm I drill some 40 to 50 percent of my soybean crop and also plant some of the crop using minimum tillage.

This technique in itself greatly reduces the amount of erosion over the conventional tilled cropping system.

I also use winter cover crops to protect the land during the winter months. We have also installed parallel terrace systems, drop outlets, and grassed waterways on our farm.

Of the more than 20 best management practices installed last month at the Operation Save Our Soil demonstration at Dyer—and a very fine day it was indeed—all are effective for erosion control and water management. Some of these best management practices or combinations of them can be used on virtually all farms that I know about; but we all know that these practices are costly.

Shelby County contains about 500,000 acres. Of this total acreage, about 300,000 acres are either in cultivation or in pasture. About half of the land used for crops in Shelby County suffers from either erosion or water management problems.

As another example of the complex economic situation that our farmers face, let me use some figures to illustrate my point.

Let's say that it will cost an average of about \$100 per acre to reduce soil erosion and loss to tolerance. That is, if we were to install best management practices to the extent that we reduce soil loss from the current average of 40 tons per acre per year to 5 tons per acre per year.

Let's multiply the 300,000 acres times 50 percent—half of it being effected, see—times \$100. We can see that the total amount of money needed to protect the farmland in Shelby County alone is about \$15 million.

Let me give you a personal example of expenses I had this fall when I planted a winter cover crop on 420 acres of soybean land.

We did aerial seeding of Austrian winter peas on September 17. Congressman, just the other day. You can't do it earlier because if you do, it gets in the way of the combines. It's just not ready.

The cost breakdown is as follows: Austrian winter pea seed, 60 pounds at 18 cents, \$10.80; cost of flying in the seed, \$2.50; seed inoculant, 60 cents; labor for loading the plan, 10 cents; total cost per acre, \$14.

Now, ACP cost payment amounted to \$5.40. My own share of the total cost amounted to \$8.60. I paid 61 percent of the total per acre cost, while ACP paid 39 percent.

I seriously doubt if very many farmers will pay in excess of 50 percent of the cost of such works, especially when so many of them lease cropland on a year-to-year basis.

I believe we must have some type of tax incentive or an increase to 50 to 75 percent in cost-share programs.

At best the farming business is a risky enterprise. Uncertain market conditions, adverse climate, high capital investment requirements and competition for use of available farmland all affect our business.

Also, we are under constant pressure to produce more and more to meet financial obligations and to help the Nation's export accounts.

Now, I'm really serious about that. If we didn't export \$33 billion worth of farm commodities, we would be \$33 billion worth worse off.

So this is real important to everybody. If we can't grow these things, then we are really handicapped because of a deficit in export trade.

It must be economically feasible for a farmer such as myself to install conservation systems if conservation practices are to be accomplished.

In summary, the technology is available to reduce erosion by as much as 75 percent in west Tennessee. I see two major factors that must be stressed if this reduction of erosion is to become a reality.

First: The problem must be brought before the citizenry of the area and they must be made to understand all the ramifications and consequences of an erosion control program versus no erosion control.

Second: Greater financial aid must be provided as an incentive for installing conservation systems.

I'm about to conclude. This is the last sentence. Remember it, please.

This possibly could be accomplished by increased cost-sharing and tax incentives for installing conservation measures.

I tell you, gentlemen, I appreciate the opportunity of getting to visit with you, and now I'll give you a copy, because I wasn't about to let you be reading what I had to say while I was saying it.

Mr. JONES of Tennessee. Thank you very much, A. K. You did a good job and we appreciate it. You've made a big contribution to the cause and we'll have some questions to direct to you.

Our next witness is also a good farmer and director of the National Association of Conservation Districts, Steve Brunson.

Steve, we're delighted that you're here.

STATEMENT OF STEVE BRUNSON, DIRECTOR, NATIONAL ASSOCIATION OF CONSERVATION DISTRICTS, FAYETTE COUNTY, TENN.

Mr. BRUNSON. Thank you, Mr. Chairman, and members of the committee. It's certainly a pleasure to be here and it's always a pleasure to follow A. K. I've been following him for 14 years in conservation.

Mr. Chairman, I'm not here to give you pat answers on conservation programs because I don't have any. The more this problem is looked at, the more difficult the solutions appear.

I am pleased to be here and to have this opportunity to make this statement.

I am Steve Brunson, a farmer in Fayette County, Tenn., a co-operator with the Fayette County Soil Conservation District, a supervisor of that district and a director of the National Association of Conservation Districts.

I am a farmer whose enterprise has been greatly influenced by the combined efforts of the Extension Service, the Soil Conservation Service, and conservation districts. These efforts have greatly improved my farming operation. I believe that I fall into that category of land users called conservation farmers. This term "conservation farmers" sets some of us apart from the rest; we are a rare breed.

This term as used today I trust over the next decade of agriculture could be abolished, not because it's not good, not because I do not believe in conservation farming, but because conservation must become as integral a part of the farming business as planting and harvesting and marketing the product.

In truth, if American agriculture is to maintain its place as the provider for the world, even if it is to survive as a viable economic system, the conservation of our soil and water resources cannot fail. How this is accomplished depends in large measure on the direction given by Washington. The leadership and the will to accomplish the task lies in the countryside.

It has been buffered by changes in direction, in policy, in financial assistance, and determinations of national need. The country has survived all this, but it's made little progress in the field of conservation. If we are to become an industry able to both produce and protect, we must have a sense of national concern from the seat of government. This can be translated in a variety of ways. Without question, additional money and manpower are needed where serious problems exist.

It is appropriate to say at this time. Mr. Chairman, that the leadership you have taken in the serious soil loss problem of west Tennessee is to be commended. It will be remembered in future years as the turning point for a healthier agriculture and a better environment.

It becomes increasingly apparent as we move into the 1980's that conservation of our soil and water resources should be the major thrust of the Department of Agriculture. We can no longer afford a policy which has conservation programs on the one hand and commodity programs with acreage requirements on the other which may be at cross-purposes to sound farm management.

Regulations, restrictions, and cross-compliance are not programs which will enhance a strong USDA conservation policy. Rather, education, incentives, and direct economic assistance should provide a basis for a sound program.

The economics of on-the-farm conservation practices have been debated for years. Pride of ownership, sustained yields because of a stable resource base, income loss from conservation installations and rotations of crops, as compared to income loss from erosion have been difficult areas to measure.

We move into an area of public policy which calls for reductions in off-site damage from soil loss, even an improvement in the quality of water and land resources, we are talking about benefits for all Americans. The costs of these types of programs, the sacrifices of production if there be any, must be shared by all.

I find it increasingly difficult to digest that the land user, the farmer, is the sole cause for soil erosion in this country. The public demand, the administration policy for production at the least possible cost has placed an undue burden on our farm economic system.

Only recently has the attention of the American people been focused on the need for conservation. This is, of course, due in part to the efforts of you, Mr. Chairman, and your colleagues on this committee.

The future of our land and water resource base is a challenge. I believe we are at last on the right course, a cooperative effort between policymakers and land users.

Thank you, Mr. Chairman, for this opportunity to appear before you today.

Mr. JONES of Tennessee. Thank you very much, Steve, and I want to reemphasize the real contribution that you have made to the cause all over this country through the years.

Our next witness is also a real good farmer here in west Tennessee, a good cooperater and a good leader, John Ware [Buddy] Moses of Brownsville, Tenn.

Buddy made several trips to Washington last year, Ed. I don't know if you met him while he was there or not, but he headed up the American Agricultural group that came up there from Tennessee and provides some real leadership with them.

**STATEMENT OF JOHN WARE [BUDDY] MOSES, FARMER,
BROWNSVILLE, TENN.**

Mr. MOSES. I am Buddy Moses from Brownsville, Tenn., and I appreciate this opportunity to share some ideas with you. Mr. Chairman, and the committee.

I guess all of us have tried for years to think of ways to conserve our soil. I've been farming 29 years and I know in that 29 years in my area in west Tennessee I've seen the yield gradually drop. In the last 5 years we've tried to say it's weather, we didn't have good seed, maybe we didn't put down enough fertilizer; but I think we have to face it now that the biggest or at least 50 percent of our problems in yield, not only in west Tennessee, but all across this country, is soil erosion.

As Congressman Jones mentioned, I was in this ag movement for the last couple of years, and one thing I did was ask a lot of questions of farmers all across this United States, whether it was the west, the north, the south, east, or the middle, and their yields are dropping. They've reached a point that their yields in a lot of cases will not cover their cost of production.

Being a landowner and a renter, I think I can speak for both sides of this problem. Looking at it from a landowner, I think that the first thing that our Government needs to do is to make it a law that it's mandatory that the landowner participate in a soil conservation program.

I don't see any other way that this can work.

I might explain a little on that, the reason in my area, 50 to 60 percent of the farmland is absentee landowners; and from what information I've found out all across this country, it will average 50 percent.

The rent that a farmer is paying for land now and only having a 1-year lease on that farm, it is an impossibility for this farmer to participate in any soil conservation program, as far as financing any of it. He's carrying a big enough load in trying to buy farm equipment, his fertilizer, his input.

I have some land, that's 200 acres, that belongs to my mother and I understand the renter's side of it. One hundred percent of her income is from farming. She would not be able to participate in a program financially.

I'm not saying this is impossible. Our land is our most valuable asset in this country, as we are fast finding out; but we do have hardship cases in land ownership.

I can see that there could be a small tax put on land. If our Government is willing to participate 50 percent in some form of conservation program, I think the landowner is willing to go 50 percent, but there will have to be a long-term loan or some small tax per acre put on this land.

In the 1940's we had some land that drained into what we call Muddy Creek. It began to overflow and fill up. A lot of real rich bottomland became unusable. Through a group of farmers that join this creek, they agreed to put a tax on their land and this creek was dredged, and this tax would stay with that land no matter who owned it. If it changed hands this tax stayed with it until it paid off his dredging cost, or their part of the dredging cost. I think our county and State is definitely going to have to participate in this, and I'm talking about with money, financing it.

In my county there are over 800 miles of blacktop roads. In the last two winters there have been people that had to park their cars and walk a mile to get to their home or ride a tractor. I'm willing to venture out and say 90 percent of this problem is caused by soil erosion filling in the ditches and causing in numerous cases the water to run down the blacktop road instead of in the ditches.

I think our county court system that we have in Tennessee, which is made up of a lot of farmers, would be more than willing to participate in a cost-share program.

What could they do? We have a soil conservation office in our county. There's two or three men that are trained from this office to go out and to lay off terraces, waterways or some form of conservation practices.

There wouldn't be any way that this two or three men could get around to all the farms and lay off the terraces, the waterways, the gully plugs that need to be done. They could not do it without help.

I can foresee our county, our State participating, bringing in some engineers to work, to speed up this program. I think each county would be willing to pay for an engineer to help individual farmers.

I think definitely, as some of these other gentlemen have brought out, that we're going to have to really get out with public relations job on our hands to convince the consumer how this would help them. I don't think any farmer is looking for a handout or any landowner in this. It's purely the economics of it.

I can see how the farmer can participate, or the renter, in a long-term loan to some farmers that want to buy equipment to do this work with.

Back in the forties there was a program of what we called base rows then. There were farmers that took their farm tractors and plows and were paid to lay off base rows in some form of a soil conservation practice.

I see where farmers can be involved in this. I think if you get the grassroot people, the people that are definitely going to be affected by this, get them to participate in it, this program will go. If it's only from Washington, it's going to be hard for it to go.

I think one of the big things, we could spend \$500 billion. If we don't have a program to follow this up, to monitor it; if west Tennessee was set up as a pilot project and every acre was put in perfect soil conserving condition, and we didn't follow up on it, we would end up in worse trouble than we are now.

A broken terrace, broken gully plugs are a whole lot worse than if you never put them there. In closing I'd just like to say that the farmer wants to participate. I'm one, and I'm a landowner; I want to participate.

TVA called me last week, Mr. Jim Ransom, Congressman. I doubt if you know him. I deal with him through the fertilizer division. He asked me would I get a group of men together. They wanted to meet with some farmers, some agribusinessmen, to get some ideas, and they asked me would I call 10 to 12 men together.

As you know, this is the harvest season, the cotton ginner, the farmers picking and combining; but I sat down and I thought about it and I called my Congressman Jones and I told him. He said, "Do it."

I called 10 men. Not a one refused to meet October 15, one night, with TVA, to come up with some ideas that they think can be used and will be usable that TVA can start right now.

So from that I can say the farmer is definitely interested, definitely going to help. Our oil crisis, we all know about that, but I think this soil crisis is just as big, if not bigger.

Thank you.

Mr. JONES of Tennessee. Thank you very much, Buddy Moses, and we'll expect you to remain so we can talk to you later.

Our next witness is also a very good farmer here in western Tennessee on the northwest corner of the State, one of the outstanding farmers of Obion County and west Tennessee, Mr. William [Bill] Tanner.

Bill, I appreciate it and I'm glad that you consented to come down here today.

Mr. TANNER. Thank you. I'll say this, I had lots of thoughts about walking off and leaving my picker and a lot of corn on the ground and so forth to come down here, but I think it's a most important thing that's faced us in a long time.

STATEMENT OF WILLIAM TANNER, FARMER, OBION COUNTY, TENN.

Mr. TANNER. Before I start, I'd like to say that I do farm in Obion County, which is one of the leading agricultural counties of the State. I grow corn, soybeans, wheat, and cattle. I don't pose as an expert on

the cotton end of it or the big wheat growers or tobacco or those various other things. I've been interested in soil conservation throughout my farming career, which extends back to World War II. I've been the president of the Hoosier Creek Watershed since its establishment about 20 years ago.

Let me say before I start, I have a high regard for the Soil Conservation Service. I think they have done a magnificent job with what they had to work with, the resources and so forth, and I don't want what I have to say to be construed as a criticism of anything that anybody that has had to do with the promotion of programs in the past. I've supported them and I think they have done a good job.

I noticed that in 1934, which was about the time that soil conservation idea took hold in this country, the United States was losing 3 billion tons of soil per year. Now, 45 years later, in 1979, and after spending hundreds and hundreds of millions of dollars and all of the effort and publicity and education that's gone into it, we're losing 4 billion tons of soil per year in this country.

Over one-third of our cropland is losing soil at a more rapid rate than we can afford if we're to sustain production and not permanently deplete and damage our soil. As somebody pointed out, the average loss of nine tons per acre is roughly twice what we can afford.

So the problem, I think we all recognize, is serious; it's critical; it demands that something be done. We no longer have time to play with this thing. We've been trying for 45 years to educate and to persuade and to demonstrate and to get people to participate with varying degrees of success. I think that a lot of the problem is that we are attempting to grow row crops on land that's ill-adapted to row crops, and in order to do that we think we can establish all sorts of expensive practices to do that sort of thing. I think it's basic in soil conservation that we use every acre for the purpose for which it's best adapted; and if we did that, I think a lot of our problem would be solved. I am distressed to hear calls for more and more millions and millions and maybe billions of dollars to be poured into the program. I don't think that's what we need.

I noticed in Iowa that they had \$12 million State and Federal funds available for soil conservation work there, but they estimated that to do the job like it needed to be done—and Iowa is one that's losing a lot more soil than they could afford to lose—they estimated that the money required to do the job as it should be done was over \$2 billion. They've got \$12 million and it would require over \$2 billion.

Right now, a problem that is just as urgent and perhaps more urgent than soil conservation. I think, is inflation. You know, in history there's never been a nation that inflated their currency to the point that we have who was able to bring it under control until the value of their money went to zero, which would involve a repudiation of the national debt and everything else.

I think it's essential that we reduce this Federal spending. If it starts with me, let it start with me; it's got to be reduced. I don't think we can, in good conscience, ask the Federal Government to solve this problem for us when we've got better ways to do it anyway.

It may not be a popular way to solve the problem, but as I look at what we've done over these 45 years and with all good intentions and with good efforts and good work, it just simply is not getting the job done.

I pointed out to Ed that after I attended the day at Dyer, and I thought it was excellent the way it was put on, the demonstration down there. People cooperated and it was a wonderful day.

But I attended a day almost identical to that way back about 1946 or 1947, I forget the year, between Martin and Dresden. They had a 1-day facelifting of a farm there and all the fertilizer and machinery people and everybody came in and they did this.

I don't know many farmers who are not pretty well educated about soil conservation and about these practices.

What the problem really is when you get down to it, a farmer is faced with a decision of my living, my short-term personal gain versus the long-term national good, and there's not many of us when our living is involved and my kids going to college and that sort of thing, that are going to choose the long-term national good when growing soybeans on a hillside will put my kids through another year in college.

That's the problem right there and there's not enough money in the Federal treasury and I doubt if they can borrow enough to really solve this problem with money.

Now, to me the answer is this: In every city and every town that I know of, they have a zoning program. Some land is zoned residential, some is zoned heavy industry, and light industry, and commercial, and various ways, depending on its location and its capability and so forth.

My feeling is that if all of the land in the United States, all of the farmland in the United States ought to be similarly zoned. Nobody in towns feels that the sanctity of private ownership is infringed by having their land zoned. They know what the zone is when they buy the land. If they want to put in industry, they go buy land that is zoned for industry. If they want to put in a subdivision, they get land that is zoned residential. I think that all of our farmland should be zoned in a similar way, zoned permanently.

Now, the basis for that could very well be the soil surveys. I don't know how far along that program is. I know it's completed for my county, and you have soil capability groupings.

Each group of soils, and they are identified on the map there. Some of them, they say, you can grow a row crop every year on it and you won't hurt it. There's no danger from erosion, level land and well-drained land that there's no danger.

Then they have class two land that requires a slight degree of protection, and so forth. Some land could be cropped every year, some could probably be cropped 2 years out of 3, or 1 year out of 4; some land that we're growing crops on—I just saw field after field as I drove down this morning of soybeans on rolling ground through all of west Tennessee, and down every row was a trench. They smooth it over when they plant the next crop and you don't hardly realize the soil is gone, but it's gone.

So they could be zoned that way. A lot of this land ought to be permanently in grass. Some of it ought to be permanently in timber.

We ought not to clear some of these steep hills of timber. We need timber and we need grass.

Now, if the Federal Government is going to furnish any financial help, it seems to me that it should be in the form of helping in the initial expense of changing over from a row crop agriculture to an agriculture of perhaps some livestock, because there is an expense involved of fencing and water and various things; but that's what is going to have to happen on a long-term basis.

I don't think you can take a steep hillside here that's suited for grass and grow soybeans on it, and in order to do that, as Mr. McCalla said, spend this \$400 an acre to build these parallel terraces. I've seen so many farmers build terraces and tear them out because they got in the way. Very few would maintain them, I think.

So it seems to me that we're just beating around the bush and we're fooling ourselves if we think by incentives we're going to encourage and persuade people to participate voluntarily.

We've had 45 years of this and it isn't working. In fact, we're losing ground. I think the time has come now to have a positive program where we identify this land and say this is grassland, this is row cropland.

As a byproduct, we would have many environmental advantages. We would have many economic advantages, because believe it or not, much of this land—and I know because I farm some of the steepest land in west Tennessee and I farm some of the flattest in west Tennessee, and many years my steepland when cattle are a good price has netted more than my bottomland. An acre of grass will produce nutrients just like an acre of corn will.

This is the kind of education we need to do, and we need to get people to use their land in the way that the Lord meant for it to be used. That's what it's adapted for.

Well, I've said more than I came to say anyway. I appreciate being down here and I'll be around for any questions.

Mr. JONES of Tennessee. Thank you very much, Bill, a very good statement and we certainly appreciate your presence.

We have Mr. Richard Lutz here who was not on the formal list for a statement, but he said he'd like to make a statement. Mr. Lutz, we'll be glad to hear you now.

Is Clarence Sparks in the audience? You are next. Mr. Jerry Ull, we'll hear you after Mr. Sparks.

STATEMENT OF RICHARD LUTZ, FARMER

Mr. Lutz. Thank you, sir. I appreciate the opportunity.

I make no excuse for my attire. I was cutting beans when I left and I didn't have time to change.

Congressman Jones, I want to start by just saying that I think all of us recognize that some of the greatest problems we have is soil compaction and the lack of water management.

At the conclusion of a letter I furnished to Mr. Joe Hill and you, a notarized letter from a farmer, he asked me to read, I want to start by reading his last line addressed to you, "We appreciate your listening to us and all your efforts."

I think that would be a good way to start. I call on farmers, and around the Midsouth their attitude is changing. I'm speaking for the Midsouth because I know it like the back of my hand.

Farmers are starting to say, "Well, maybe they really are going to do something about it," and I say, "No, you're the one that's going to have to do something about it," and they agree. Let me read this.

This, by the way, is from a farmer, James W. Wilson, 951 Baker Road, Lake Cormorant, Miss., and I believe Brother Sparks is an acquaintance of his.

DEAR SIR: There is a material being offered on the market called React. I have used this product for two years. I have found that my fields which are in the hills northwest of Vernandah, Miss., about 12 miles have much better water percolation. We have noticeably much less erosion on the side of the hill field that was treated. The soil also worked better.

Before I started using it, I had to fill in my ditches that washed away during the growing season and winter with a bulldozer. I haven't had to do that in two seasons. My bottomland can also be worked sooner after a rain. This costs me about \$5 an acre.

When we ran a yield check, we had close to a 6-bushel-per-acre increase on forest beans off the treated side.

We appreciate your listening to us and all your efforts.

A couple of other comments that I might make. Most of what we share is either in the form of a letter or an affidavit.

This comes from Mark Spain, superintendent of Little Rock Country Club in Little Rock, Ark. Of course, we're not here to talk about country clubs, but I think his comment is worth hearing.

"After seeing the difference it made—he's referring to React and a fertilizer here—on our fairways where we had been using the agri-soil and plant treatment program, I am recommending we treat our roughs also to help get better water penetration, less erosion, and more cover."

I'm going to just mention what that React is, if I can read these long words. It's ammonium laureath sulfate, or ammonium alcolether sulfate, 58 percent; it's alpha pinene, 4 percent; solubilizing and coupling agents, 38 percent.

The purpose of that material is to allow faster and deeper water penetration, more porous soil, reduce water runoff, retain the moisture longer, easier tillage of the soil, increased effectiveness of tile, penetrating hard compacted soil.

I want to say this from personal experience, this material can go out at any time. I'm not really here to sell a product, but I'll tell you this: It will make a hard pan porous where the water will go through it and come back through it when it's needed.

This material is on your farm this year, Congressman Jones. I think it's on a 30-acre plot off of a 42-acre field, and this should be done on every farm if they choose to do it. Gary Fessmeyer is the one who is in control of that.

I want to make one comment on folier feeding. I was talking with people from the University of Arkansas one day and the plant pathologist was telling the farmer, "Plow up your soybean stubble in the fall."

The soil microbiologist told him at the same setting at the coffee table at the Parker Equipment Co., "Plow up your soybean silage in the spring."

You see what I'm getting at? I do not mean that in a derogatory

Both of them made a very good point thereafter. I think that

one of the things that we need to do is do some more submoisture plowing. You say, "Good grief, I won't only be losing my topsoil; I'll be losing my subsoil, too." That is not the case. It's according to how you time the submoisture plowing as to the effectiveness of it.

I think that we need to do more in the way of not just going out there every year on the pasture land and sticking 300 pounds of ammonium nitrate out there. I think there should be more soil analyses run, because two of the things that have caused soil compaction, which is one of our greatest problems, are 25 years of toxic and caustic chemicals and over-fertilization. That's just the plain truth.

I was talking to Mr. Joe Burns at the University of Tennessee at Barrow's Angus Ranch the other day and we got into this, and he agreed with me fully, because most of the pastures are overfertilized. What they need to do is more knifing and less fertilizing.

This is an excerpt from an article in the *California Farmer*, written by Mr. Carl W. Platt, entitled, "Folier Feeding Insures Fertilizer Effectiveness."

I'm just going to read three excerpts.

The efficiency of any fertilizer that is applied to the soil is very low. To be specific, less than 50 percent of any form of nitrogen applied is ever available to the plants. Only 10 to 30 percent of any form of phosphate fertilizer that is applied to the soil is usable or available to plants growing in that soil. If your soils contain the minerals, vermiculite and mica, as little as five percent of any potassium fertilizer that is applied may be recovered by the plants.

I'm not standing up here saying, "Don't fertilize." I just look that dumb; I'm not.

I'm just saying to you that when you start talking about the cost per acre in farming, there's ways of doing it and it would cost you a whole lot less to take a soil analysis and fertilize according to it.

We've been using caustic and toxic chemicals all these years. We cannot expect that soil to recover all by its lonesome.

I mean, God made it to where it would come in a cycle every year, you see. The soil on the whole Earth is that way to different degrees. The ingredients in that react are mostly farm byproducts anyway. Isn't this ammonium sulfate derived from coal? What is it derived from?

It's just put together. But that's the only thing that I know of in the entirety of the thing, besides the coupling agent, that's not farm byproducts. It is the organic material that will allow the faster and deeper water penetration. I know I'm repeating myself.

The more porous soil, reduce water runoff, erosion, help retain the moisture longer, make the soil work easier, increase the effectiveness of tile. There's tiling up there close to your house.

As a matter of fact, Gary has got some out in the field right behind his headquarters there. He told me it was good for 3 or 4 years and he's got to rework it, if I'm quoting him correctly.

Penetration of hard compacted soils. I think that's something that should be looked into.

Now, I'm going to make a statement in closing, and it's this. I am not committing the company or committing any of the farmers that use the material.

I am willing to pay any land-grant university in researching this material 3 cents per acre in their State as a means of a grant, plus

the contribution of the material, and it will be from the actual record. I sure do appreciate you.

Mr. JONES of Tennessee. Thank you, Mr. Lutz. We appreciate your presence.

The next witness is Mr. Clarence Sparks of Walls, Miss., and then Mr. Ull.

STATEMENT OF CLARENCE SPARKS, VICE PRESIDENT, MISSISSIPPI ASSOCIATION OF FARMER-ELECTED COMMITTEEMEN, WALLS, MISS.

Mr. SPARKS. Congressmen and members of the committee, I am most appreciative of this opportunity of visiting with you this afternoon. I have enjoyed the testimony that I have heard so far, and I appreciate the interest reflected in the lives of these men who have appeared before you.

I am especially grateful for the fact that one of your caliber and ability serves in a position as you do and that you have the interest at heart that you do with regard to what, in my opinion, is one of the crisis problems of our time in connection with our soil.

The afternoon is wearing on and I am going to make my statement very brief.

I am the vice president of the Mississippi Association of Farmer-Elected Committeemen, and a member of the National Association of Farmer-Elected Committeemen. I have served in other capacities with varying responsibilities in my county and State, and I have been dependent on my farm to pay my bills, at least the portion of the bills that have been paid, all my life. My family for five generations have made De Soto County our home, and we have been dependent on the soil for our livelihood, so we are vitally concerned about the issues that have been mentioned and discussed this afternoon.

Two or three things that I want to mention. First of all is that I'm opposed to any form of legislation which provides for a national compulsory overall land use plan.

Second, I would request of the agriculture conservation program under the present ASCS and SCS relationship be continued, and that funding for the program be increased to the level that would meet current needs.

Third, the coordinated joint effort of farmer-elected community and county committees in conjunction with the local district soil and water conservation boards and SCS technicians is the best vehicle for the administration of conservation and land improvement programs. This arrangement has been widely accepted and will continue to serve our farmers and landowners in the most fair and equitable manner.

Of course, there are a number of issues involved in conservation, and I pride myself in being a conservationist. We have employed various soil and water conservation techniques on our place for a number of years, using no till and minimum till and other approaches to tillage and use of the soil to the best advantage. We enjoy the use of bottomlands and we enjoy the use of sloping hill lands, and I can assure you that we have the problem at heart.

These things that I have mentioned, however, have to do with something aside, I guess, from the basic issue itself; that is, the loss of the soil, but they are attendant to something of the process that might be utilized in association with the Congress attempt to solve the problem.

I appreciate so much your interest and I appreciate the opportunity this afternoon. If there are any questions from you or your committee, I should like to respond at a convenient time.

Mr. JONES of Tennessee. Thank you very much, Mr. Sparks, and we will call you back in just a moment. I have one more witness I'd like to hear on another subject before we put the panel together.

Mr. Jerry Ull is representing the Farmers Production Credit Association from Ashland, Ohio. He has consented to appear this afternoon and I thought we had the time. Mr. Ull, I believe you said your statement was not long.

Mr. ULL. Yes.

STATEMENT OF JERRY ULL, VICE CHAIRMAN, BOARD OF DIRECTORS, FARMERS PRODUCTION CREDIT ASSOCIATION, ASHLAND, OHIO

Mr. ULL. Congressman Jones, members of the subcommittee, I'm Jerry Ull, vice chairman of the board of directors of the Farmers Production Credit Association of Ashland, Ohio.

Before I give this testimony, I would like to say I really want to thank the people down here for their great southern hospitality.

My wife and I drove down the last 2 days and people have been very congenial to us and I hope if any of you ever come up to Ohio, that we can show you the same courtesy.

I have been interested here in hearing the testimony from the soil conservation. I might give you a little relation of our own home farm. My son and I have around 400 acres. We keep about 150 dairy cows and about that many head of livestock. We have been in no-till farming of corn and for the last 10 years we alternate our contour strips with corn and alfalfa. We have been trying to save our soil and I'm very interested in this aspect, too.

I might say I was interested on the sludge disposal. We're having a lot of that up in northeastern Ohio now. I tried seven acres of it this last year. The corn looks good. We have not made yield checks now. We are a little concerned about the heavy metals.

There's a lot of work being done in Ohio on this. At the present time I think there's three semi's hauling 24 hours a day into our county, sludge from northern Ohio. So it is coming in.

We have strip mines down there. They were wanting to fill them up. We did get that stopped. We were afraid of it getting in the water level. There's been a lot of work done on that in Ohio. So I just thought I'd relate that to you.

The Ashland Association has \$159,847,000 in assets and has a membership in excess of 5,000 farmers in our 11-county chartered territory, which lies south of Lake Erie in north-central Ohio.

I appreciate the opportunity to present the Farmers Production Credit of Ashland's views concerning H.R. 4782, the Farm Credit Act

Amendments of 1979. We sincerely believe all the amendments as presented are needed to keep the Farm Credit System the dependable source of farm credit that it has been for the past 50 years.

The officers, directors, and employees of the farmer members of our association totally supports the Farm Credit bill. However, we believe that the Production Credit Association needs a longer term loan than the 7 years now permitted.

Our people need terms of 10 to 12 years for several reasons. Lower net farm income as a result of inflation; larger expansion projects and capital investments and larger machinery items simply cannot be amortized over the present 7-year limitations.

EPA regulations are creating the need for more expensive and sophisticated manure disposal systems. We cannot and should not expect high capital outlays for non-income-producing units like that to be paid out in 7 years.

I would like to relate to you our own experience on our farm. I have not heard this brought out today; EPA regulations.

Back in 1973 EPA came in on our farm, which is located on a State highway, and told us that the runoff from our cemented barnyard was causing pollution in a little lake 2 miles downstream from us. Our farm is really at the headlands of this watershed. If our barn had been the length of a football field on north, the water would have run the other direction and we'd probaby have never had any trouble; but it runs to the south, and they said something was going to have to be done.

So in 1974 my son and I decided we'd go to the expense to cover the barnyard, which at that time cost us \$14,000.

Then they came in and said that wasn't enough. The water from our milkhouse and our holding area and our milking parlor was contributing to the pollution of this little lake.

Now, I should relate, too, that where I'm located, we live 80 miles south of Cleveland. There's a very highly populated area north of us and east of us; Akron is 50 miles; Canton is 30 miles; a lot of population up there.

We're really kind of the playground of northeastern Ohio. These people come down to our area. They are buying up little tracts of land, putting up a summer house. Some of them are coming down there to retire. They are also coming down there for camping for weekends. That's what this was. It's a little lake and they were coming down there camping for weekends.

The man right above it had a hog operation, an older man. First they hit him and put him out of business. He was not in a position to do anything except he had his hogs running loose on the hillside there, fed out 5 or 6 hundred head a year; and they put him out of business.

We were the next ones to get it. Not that I'm criticizing EPA. It's just one of the things of the times, I think, but when they talked to us about the milkhouse and so forth, we asked them to give us a longer time to do this, to fix this up, and they said, "How long do you need?"

I said, "Well, I thought in 2 years we'd be putting in a new milking parlor and we'd take care of it then." So they gave me that 2 years.

So we put in our new milking parlor, new milkhouse, new holding area, and then we built a lagoon. The lagoon cost us \$14,000.

The pump to get the water from the milkhouse and the holding area and so forth into the lagoon where it was situated cost another \$4,000.

So I had a total expense of around \$32,000, which today I'm sure if I put it in today, the whole thing, barnyard and all of the other things, would cost between \$50,000 and \$60,000.

This didn't add to our income 1 penny, and this is the thing—things like this, I think PCA should have these longer term loans, because we cannot generate any added income by doing this; but we complied with EPA on this.

Silage equipment, combines and larger tractors now carry price tags in excess of \$50,000. Many such items carry a life expectancy of 20 years or more. Should a farmer not be allowed more time than 7 years to pay for them?

Credit needs of farmers are rapidly changing. Our early history in farm credit reveals that the maximum time to pay a PCA loan was at one time only 3 years. Later, legislation moved this time up to 5 years.

The request was made in 1962 for a 10-year loan, and due to objections, a compromise of 7 years was granted. There has been no change in the maturity of the intermediate term loans for the past 18 years, while during this time period inflation has eroded the farmer's ability to pay.

I respectfully request on behalf of the farmers in our part of the Farm Credit System that the law be amended to permit Production Credit Associations to make loans for capital purchases with maturities up to 10 years.

I thank you very much.

Mr. JONES of Tennessee. Thank you, Mr. Ull. If you'll stay around, we'll question you later.

We have two men, one with the local Bank for Co-ops and one, the president of the FICB here, if you don't object, we'll hear them next and then call you together.

Mr. Thomas Farr, president of the local Bank for Co-ops, we'll hear you at this time, and then Mr. Dick Feltner, then we'll call both groups up together. I think this will be some accommodation to these gentlemen because they are on a tight schedule.

We appreciate your coming, Tom. If you summarize, we'll still put it all in the record, whatever you want to do.

STATEMENT OF THOMAS W. FARR, LOUISVILLE BANK FOR COOPERATIVES, LOUISVILLE, KY.

Mr. FARR. I certainly appreciate the opportunity to come down and make a presentation. Like the rest of these folks, although I'm an employee, I feel like we are working directly for the farmer in trying to look out for his interest.

I deem it an honor to be able to appear here today in support of H.R. 4782. The Louisville Bank for Cooperatives is a part of the nationwide cooperative Farm Credit System, and I know you folks are well aware of that.

It handles approximately \$50 billion of credit to the farmers and ranchers in this United States. As also you know, it does not lend Government money and there is no Government money involved in the operation.

The Louisville Bank for Cooperatives serves the Fourth Farm Credit District, which includes the States of Tennessee, Indiana, Ohio, and Kentucky, providing for the advance of loan funds estimated to be approximately \$2 billion during 1979.

Of course, we will not reach that maximum amount this year. The money flows in and out as they need it for the moving of grain and other commodities.

These loans are being utilized by approximately 350 agricultural cooperatives, providing goods and services for their farmer members, including farm supplies, marketing of grain, dairy products, livestock, wool, tobacco, and so forth.

Additionally, these cooperatives provide such services as application of fertilizer and farm chemicals, artificial insemination, and in the case of rural electrics, by providing electrical service to farmers and other rural residents. In this area we are acting as a supplemental lender to REA.

I would direct my comments to two of the major provisions contained in the proposed amendments to the Farm Credit Act of 1971.

First, I, as representing the members of our cooperatives, strongly support the amendment authorizing the Banks for Cooperatives to finance agricultural export transactions in which a U.S. cooperative and its farmer members are the primary beneficiaries.

As we are all aware, agricultural exports are very important and contribute substantially to the Nation's balance of payments.

We recognize that foreign grain buyers want a dependable source of grain which is uniform and of good quality.

I think many of you recognize in the past 5 years we've had quite a bit of complaints from our foreign buyers about having foreign matter in their grain, and I think our cooperatives have proven themselves by providing good quality grain to the foreign buyers.

Certainly, our agricultural cooperatives are in a good position to supply this grain to foreign buyers, provided the necessary financial assistance and other services are available to the cooperative.

Local grain cooperatives initially receive about 40 to 50 percent of the grain when it's first sold by the farmer. However, the cooperatives only export approximately 10 percent—that figure as you heard today ranges, but we estimate around 10 percent of the total amount of grain sold in export markets.

Farmers have developed an awareness of the importance of world markets for their products. They believe they should take a more active and direct role in selling their products to foreign buyers.

Consequently, these farmers, through their grain marketing cooperatives, are requesting us to provide the necessary financing and other services to facilitate the sale of grain to foreign buyers. We believe the banks for cooperatives can most appropriately provide this financing and other required services.

Since the banks for cooperatives were chartered in 1933, they have had excellent track record in working with and providing financing and other services for their member borrowers. To establish efficient international banking services the banks for cooperatives need authorization from Congress as provided for in the Farm Credit Amendments of 1979 under H.R. 4782.

These are the same general authorities available to commercial banks to provide international banking services for their customers. In order for cooperatives to increase their export business, which is in the best interest of the Nation and in the best interest of the farmers, they will need to have available certain specialized financial services.

I might add right here, I know the banking industry, the commercial banking industry, has had some comments about us getting into the international scene; and as a matter of reference I might cite current statistics. The size of the Bank of America at this time is \$110 billion total assets. The banks for cooperatives between \$7 and \$9 billion, and we're just a little drop in the bucket compared to them.

Since the BC system at its initial chartering was funded by Government capital, the enabling legislation was designed to closely define the parameters within which the banks would operate.

Although all Government capital was repaid in 1969, the general approach of legislation was not changed in 1971 when the current Farm Credit Act was passed.

Consequently, the banks for cooperatives need the authority to develop an effective international financing capability for the following reasons:

One: Farmer cooperatives require the knowledge and assistance of their primary lender to help maximize returns on their foreign sales of agricultural commodities. It is cumbersome and less than optimally efficient to deal with one lender for domestic purposes and another for international purposes:

Two: To be competitive in international markets, U.S. cooperatives need financing alternatives for handling payments by foreign buyers.

Three: Cooperatives require specialized banking services tailored to their agricultural export business.

Four: Development of export services to cooperatives is a logical extension of the banks for cooperatives system needed to further support development of cooperatives in coming years as mandated by Congress in the Farm Credit Act of 1971.

At this time I would like to mention that about 2 years ago our cooperatives wanted the BC's to look at export finance, and they had a study made, a survey made on it, on the services provided by the international banking departments of the large banks.

They made these comments, which I think was asked a little earlier today: The movement of funds, better service by the banks for cooperatives borrowers—that's what they wanted.

They felt the cooperatives were so small as compared to the large grain companies that they didn't want to, I guess, devote their time to the cooperatives.

Another thing, our borrowers complain that the small co-ops go to the commercial banks and don't get the service in time which they need. I think the gentleman from Mississippi pointed that out this morning in handling their papers. They just don't take the time with our cooperatives.

Mr. MADIGAN. Wasn't there another problem involved there? Wouldn't that problem have existed whether or not you had been in that business?

Mr. FARR. I don't get the point, sir.

Mr. MADIGAN. The bank in China, the bank of the Chinese Government was demanding that the things be done there, rather than at a bank in New York.

If you had been involved with the transaction, rather than the bank in New York, the bank in China might have still been making the same demand, might they not?

Mr. FARR. Yes, sir.

Mr. MADIGAN. That can be a rather spurious example, can it not?

Mr. FARR. Yes, that one is probably * * *. What we gathered from this survey was a number of the co-ops that were exporting felt that the international departments of the commercial banks did not want to devote the time to our cooperatives, nor handle the paper in the time needed.

This probably was just an isolated case in China, but they just didn't give the attention to the cooperatives. That's just what came out of the survey that was made for a number of the export cooperatives.

Mr. MADIGAN. I have asked this morning for examples of that kind of thing, and I certainly hope that you will be able to provide them.

Mr. FARR. Yes, sir. These are two things in their general statements which I—since this morning I called the bank and this is a point they gave me. They are not two specific examples. We'll have to get more specific with you.

Mr. JONES of Tennessee. Tom, I wonder if the whole survey, the report, would be available to the subcommittee?

Mr. FARR. Yes, sir; I think we can get it.

Mr. JONES of Tennessee. If you could and let us make it a part of our records, it would be worthwhile.

Mr. FARR. We could probably get it ready for maybe subsequent hearings in Washington. We'll make it available to you.

I would like to comment briefly on each of the major authorizations requested by the banks for cooperatives to establish an effective, efficient international banking service for cooperatives.

One: Permit the banks for cooperatives to make deposits in foreign banks. A key element in international banking is establishing correspondent relations with banks in foreign countries. Correspondent relations with foreign banks would offer the most cost-efficient method of accomplishing collections and payments. Correspondent relations would also provide an important source of credit and market information for the BC system, thereby assisting in the management of risk inherent in the banks for cooperatives' operations.

Two: Enable the banks for cooperatives to receive and hold credit balances from banks and borrowers. This authority would be used to efficiently transfer funds for international transactions of farmer cooperatives. This authority would not permit the banks to accept deposits from the public or from other unrelated sources. Credit balances of both foreign banks and cooperatives often need to be held if the time and cost of transferring funds in international transactions is to be minimized.

Three: Authorize the banks for cooperatives to purchase and sell banker's acceptances. Banker's acceptances are a common tool in in-

ternational banking that are an essential element of such services for cooperatives.

Four: Authorize the banks for cooperatives to purchase sight and time drafts drawn by cooperatives on domestic and foreign banks for the purpose of financing and facilitating collection for exports. This provision would enable the banks for cooperatives to further assist cooperatives by facilitating collection and payment for exports and imports and provide financing to the cooperative.

Five: Authorize the banks for cooperatives to engage in currency exchange. While the majority of export transactions are denominated in dollars, a buyer may wish to make payment in his own currency. The ability of a cooperative to accept this condition of sale may mean the difference between making the sale or not. The banks for cooperatives do not intend to take open positions in currencies, but would instead hedge any transactions if they were a party. To do otherwise would not be in the best interests of the banks' operations as cooperative organizations.

Six: Authorize the banks for cooperatives to make loans to associated parties where there will be substantial benefit to member cooperatives. Leasing can be especially advantageous to cooperatives under certain circumstances. The authority to purchase mortgages and notes with related security from lessors leasing to cooperatives would assist members in retaining the advantage of BC financing through their bank without losing the advantage of leasing. The banks for cooperatives have not been permitted to extend such financial assistance to their members although commercial banks and other lenders have had this authority for offering such service to their customers.

Seven: Authorize the banks for cooperatives to participate in ownership of foreign agencies and institutions. Such investments are necessary, as the cost of these services provided to an owner is substantially less than obtaining the same services on a fee basis. The banks for cooperatives could avail themselves of the international information network of such an organization, as well as benefit from the increased level of contact with the other owners. This would provide the banks for cooperatives with credit reports, appropriate legal advice, reports of buyer interest in foreign markets, facilitative documentation, and agent representation when necessary.

Additionally, I am testifying in support of the reduction in eligibility requirements to 60 percent of voting members or such higher percentage as a district board may establish for a cooperative to borrow from the banks for cooperatives. Under present law, 80 percent of the voting members of a cooperative—70 percent in the case of rural utilities cooperatives—must be farmers in order for the cooperative to be eligible for bank for cooperative financing. By lowering the requirement to 60 percent, the banks for cooperatives will be able to more fully serve the credit needs of rural America. Moreover, district boards would retain the right to set higher farmer-member eligibility requirements for cooperative eligibility if they so choose.

I believe this change is necessary for the banks for cooperatives to be able to serve the credit needs of agricultural cooperatives in rural America without abandoning the principle of farmer ownership and control. This change is made necessary because of the increased num-

bers of persons moving to rural America and at the same time wanting to take advantage of the products and services offered by the existing agricultural and service cooperatives.

Several cooperatives in the fourth farm credit district are finding it increasingly difficult to meet the bank's eligibility requirements. Additionally, it is being reported that this is a trend which is prevalent in several parts of the country.

Public utility cooperatives experience eligibility problems primarily because of the area coverage concept. This requires an electric or telephone cooperative to serve all residents, businesses, and entities in its service area. The cooperative, therefore, has little, if any, control over the composition of membership. As a result, cooperatives adjacent to urban areas or serving rural industries have the most problems meeting our eligibility requirements.

I strongly believe that such a reduction will benefit not only the Nation's farmers and ranchers, but also the consuming public. The proposal change will enable more cooperatives to have access to competitively priced money and services available from the banks for cooperatives. We work closely with our stockholders to help them become stronger and more competitive for their members. The stronger and more efficient they become, the more effective they can be in passing these efficiencies along to consumers.

It is my sincere belief that it was the intent of the 1971 Farm Credit Act that the banks for cooperatives continue to serve the cooperatives providing agricultural goods and services including electrical service in rural America.

Mr. Chairman, the purpose of the banks for cooperatives in the beginning, as it is today, is to improve the income and well-being of American farmers and ranchers by furnishing their cooperatives sound, adequate, and constructive credit and closely related services.

The amendments to the Farm Credit Act of 1971 as provided for in H.R. 4782 are needed for the banks to accomplish this purpose. Consequently, I would urge the enactment of H.R. 4782 which is in the best interest of the farmers, ranchers, and the Nation's consumers.

Mr. JONES of Tennessee. Now we'll hear from Dick Feltner, who is the president of the FICB, also from Louisville.

Unless some other witness here has a problem with tomorrow, this will conclude the witnesses. If anybody does have a problem, if you'll let it be known to us, we'll be glad to comply.

STATEMENT OF RICHARD L. FELTNER, PRESIDENT, FEDERAL INTERMEDIATE CREDIT BANK OF LOUISVILLE, LOUISVILLE, KY.

Mr. FELTNER. Thank you, Mr. Chairman, Mr. Madigan.

I am Dick Feltner, president of the Federal Intermediate Credit Bank of Louisville. The FICB, along with the Federal Land Bank and the Louisville Bank for Cooperatives, do serve the States of Ohio, Indiana, Kentucky, and Tennessee.

Together these three banks have slightly in excess of \$7 billion in loans outstanding, and are serving more than 150,000 farmers and other eligible borrowers in these four States. I certainly appreciate very much the opportunity to share our views with you.

We've heard a lot today about the many changes that have taken place in agriculture, particularly since the passage of the Farm Credit Act of 1971. These changes are reflected in the credit needs of farmers and their cooperatives.

Loan volume in our district, for example, has increased since the passage of the 1971 act from a volume of approximately \$2 billion to this \$7 billion level that I mentioned just a moment ago.

I think we'd all have to agree that that is a significant change and that trend is continuing the same direction, and we're concerned about today, but we're trying to look 5 or 10 years down the road as well. We feel that in total the proposed amendments will be a step forward as we seek to fulfill the objectives of the Farm Credit Act of 1971, and we fully support the amendments as introduced. I would like to comment on three specific—very briefly, three specific amendments that are included.

First of all, the amendment which deals with processing and marketing. As you know, the Farm Credit Act of 1971 provides—makes it possible for a PCA member to finance facilities to market and/or process his production. In addition, it provides that he can also process an amount equal to his own, this amount being produced by other farmers in the area.

For example, a cash grain farmer may be able to produce, let's say, 50,000 bushels of corn on his own farm. The current provision, the way the law stands at the present time, enables this farmer to—provided that he is credit worthy, of course—to finance an additional 50,000 bushels to be processed and marketed through his own facility.

This additional 50,000 would be produced by other farmers in the area. It's been used fairly widely in our district, this provision has. It's been used in other districts.

We feel that it results in providing to some of the smaller farmers an additional market. It also makes it possible for the larger farmer who has made an investment in grain handling facilities, in this example, to make more efficient use of those facilities.

We do feel, however, that this 50 percent limitation on the amount of production which can come from outside this borrower's own farm—forced to seek credit from an additional lender, and this gets him in at least three ways.

First: If the producer chooses to produce more than his own production, plus a like amount produced by other farmers, he is forced to seek credit from an additional lender, and this gets him involved with at least two creditors instead of one.

Second: The present requirement to seek another lender in this case could lead to inadequate credit for either the farm, the processing or marketing operation or both because of the dilution of security between the two lenders and differing loan administration, security, loan payment demands, and so on.

Third: Again related to this, we feel that having to seek additional lenders can limit the competitive forces involved here, and certainly, we want to do anything we can to enhance competition.

The amendment as proposed would place with each district Farm Credit Board the authority to set the amount of production which a producer would be required to have of his own in order to participate in this kind of lending operation.

We think this is where this authority belongs. We believe that a 50-percent limitation as it now stands is rather arbitrary, and we think that agriculture will benefit from the expansion of the scope of services provided in the processing and marketing areas. So we strongly, certainly, support this amendment.

The second one I'd like to mention has to do with participation loans among units of the Farm Credit System.

Participation loans are normally extended by one lending institution to one borrower on a one-on-one basis, but as we know in the case of very large loans, a commercial bank, for example, may have a lending limit. They may have a borrower who needs \$10 million. They may have a limit which will not allow them to extend to any borrower, let's say, more than \$3 million.

In a case like this, they may participate the other \$7 million and spread that among one or more other borrowers.

Well, the institutions in the Farm Credit System are able to do some of this, but we feel that they should be able to do more. The current act authorizes limited participations among like institutions of the Farm Credit System. For example, Federal Land Banks can participate a loan with other Federal Land Banks; BC's can do it with other BC's.

But participation between unlike units, for example, a land bank and a bank for cooperatives, cannot take place.

This amendment would authorize all institutions of the Farm Credit System greater latitude to participate in loans among each other, and we feel that this would provide the system with flexibility to make more efficient use of its capital base and more fully and responsibly meet the credit needs of agriculture.

So, again, we strongly support this amendment as well.

Finally, the amendment dealing with, again, participations, but participation certificates, specifically in Production Credit Associations.

PCA's under current law are authorized to participate loans with commercial banks and other types of lenders. A commercial bank wishing to extend a loan exceeding its lending limit may do so by participating a portion of that loan with a Production Credit Association.

From the borrower's point of view, however, he's dealing only with one lender. He's dealing with the commercial bank in that case and does not have to deal directly with the PCA.

However, the way we're set up at the present time, due to the nature of the Farm Credit System, nonvoting shares of stock in the PCA must be purchased in connection with each loan, whether it's a participation loan or whether it's a regular loan.

Nonvoting stock of an amount equal to not less than 5 percent of the loan participation is issued. Under existing provisions of the act, such nonvoting stock must be issued to the farmer borrower.

Many commercial bankers find this requirement to be extremely awkward since it introduces a third party into the banker-owner relationship.

The amendment that has been introduced is to authorize PCA's to issue nonvoting stock directly to the commercial bank or other lending

institution that is originating the participation loan rather than to the farmer-borrower himself.

This direct relationship with the participating lender removes an impediment. We feel it is an impediment, and we heard testimony this morning from a gentleman representing the Mississippi Bankers Association and also the ABA, I believe, supporting this provision strongly.

It would enhance the commercial bank's ability to provide adequate credit to those eligible to borrow, borrowers exceeding the bank's lending limits.

It does not expand—this provision does not expand the eligibility or scope of financing permitted under current authority. It simply makes the lender-to-lender transactions involved in loan participations more rational and streamlined.

We feel it will have benefits, particularly, to small rural banks by enhancing their ability to provide credit to farmer borrowers, but where they have credit limits which they frequently exceed.

I appreciate very much this opportunity to appear before you and will be happy to answer any questions that you might have.

Mr. Jones of Tennessee. Thank you very much, Dick.

[The prepared statement of Mr. Feltner follows:]

Statement of
Richard L. Feltner
on behalf of the

Federal Intermediate Credit Bank of Louisville.

Mr. Chairman and members of the Subcommittee, I am Dick Feltner, President of the Federal Intermediate Credit Bank of Louisville. The Federal Intermediate Credit Bank, along with The Federal Land Bank of Louisville and the Louisville Bank for Cooperatives, comprise the Fourth Farm Credit District which includes the states of Ohio, Indiana, Kentucky and Tennessee. These three Fourth District Banks have slightly in excess of \$7 billion in loans outstanding to more than 150,000 farmers and other eligible borrowers in the four-state area. As part of the \$50 billion nationwide Farm Credit System, we provide approximately 40% of the total agricultural credit provided in the area we serve. I appreciate this opportunity to present the Federal Intermediate Credit Bank's view concerning the Farm Credit Act Amendments of 1979.

Since passage of the 1971 Farm Credit Act, many changes have taken place in the farming community in this District and the nation. These changes are reflected in the credit needs of the farmers and their cooperatives. Loan volume has increased in the Fourth District since the passage of the 1971 Act from a volume of approximately \$2 billion to the \$7 billion level I mentioned earlier - this growth trend has been nationwide. While the capital requirements of agriculture have ballooned during the past eight years, the net income necessary to repay this indebtedness has not kept pace. As a result, it becomes even more imperative that farmers and their organizations have

every possible tool available to permit them to operate in the most effective and efficient manner. We feel the proposed Amendments will be another step forward as we seek to fulfill the objectives of the Farm Credit Act of 1971. We, the Fourth Farm Credit District, fully support all of the proposed Farm Credit Amendments. We feel the Amendments as stated will enhance the System's ability to better tailor its lending programs to provide maximum responsiveness in serving the nation's agricultural credit needs.

I would like to direct the remainder of my remarks specifically on behalf of Amendments 3, 14 and 19.

Amendment 3

Part B, Section 2.15 (1) of the Farm Credit Act of 1971 provides for production credit associations to make loans to "bona-fide farmers and ranchers and producers or harvestors of aquatic products for agricultural purposes and other requirements of such borrowers." This provision, as it presently exists, makes it possible for a member to finance facilities to market and/or process his production. In addition, it provides that he can also process an amount equal to his own - this amount being produced by other farmers of the area.

We can use a grain producer to illustrate this provision. For example, a cash grain farmer may be able to produce 50,000 bushels of corn on his own farming operation. The provision would enable the farmer, providing that he is credit worthy, to finance an additional 50,000 bushels to be processed and marketed

through his own facility. This provision has been widely used in our District and has generated a very positive reaction from the farming community. It results in providing to some of the smaller farmers an additional market and also makes it possible for the larger farmer, who has made an investment in grain handling facilities, to make more efficient use of those facilities.

The Fourth District is a mixture of very large farmers and thousands of small or part-time farmers. The large operator, in many cases, does use his own marketing and/or processing facilities to further enhance the returns on not only his farming investment but also his investment in marketing facilities. At the same time, he provides a very needed service to the smaller farmer in the community whose operational size makes it not feasible to provide this type of facility for himself. We feel such operations have assisted farmers to have more competitive markets and therefore improve their net farm income.

We do feel, however, that the limitation on the amount of through-put that is stated in the 1971 Law limits the effectiveness of this type lending program for the following reasons:

- (1) If the producer chooses to process more than his production plus a like amount produced by other farmers, he is forced to seek credit from an additional lender. As a result, he must deal with two lenders. This can lead to loss of lender experience and, consequently, continuity in his operations.

- (2) The present requirement to seek another lender when processing and/or marketing interests exceed production interest could lead to inadequate credit for either the farm, the processing or marketing, or both because of the ^{dilution} ~~deletion~~ of security between two lenders and differing loan administration, security, or loan payment demands.
- (3) The inability of farmers and ranchers to gain the advantage of obtaining a broader credit coverage through their production credit associations or federal land banks can, for the reasons stated above, limit competitive forces at processing or marketing points, resulting in lower prices for producers.

The Farm Credit Act Amendments of 1979, while lifting the 50% limitation, do provide controls that would prevent an excessive shift of financing by PCAs or federal land banks to processing and marketing. The Amendment will require each Farm Credit District Board, whose members are elected by the farmers and ranchers, to determine the percentage of the producer's own production inputs which must be handled in the processing and marketing extensions of his business. These boards are in a position to recognize the needs of the farming communities and to establish limits which will be fair and provide effective financing for the farmer producer, as well as the farmer cooperatives in the District.

The Farm Credit Amendment number 3 will broaden eligibility for financing by PCAs and federal land banks to include processing and marketing activities directly related to the

applicant's farm, ranch or aquatic operation, and those of other bona-fide farmers, ranchers or aquatic producers. Each District Board will have the authority to set specific limits on this authority subject to the approval of FCA. We, in the Fourth District, believe that agriculture will benefit from the expansion of the scope of services provided in the processing and marketing areas. We think it will assist farmers in having available to them stronger, more competitive markets which, in the long run, will improve net income of the area.

I would now like to address Amendment 14.

Amendment 14

Loans are normally extended by lending institutions to borrowers on a one-on-one basis. In the case of very large loans, however, where the amount of credit requested exceeds the lending institution's legal lending limit, which is established by law and regulation to control the maximum risk exposure to any one borrower, the lender may make arrangements with one or more other lenders to "participate" or share in the loan being extended. To "participate" in a loan means that each lender agrees to extend a certain proportion of the total credit requested. For example, if an applicant requested a loan of \$10 million where the originating lender's lending limit was \$3 million, the originating lender could participate 70% of the loan or \$7 million with other lenders. In this way, the credit requirements can be satisfied through a relationship with only one lender, but with the risk being shared by several lenders. Loan participa-

tions are an extremely common and accepted practice among the nation's financial institutions.

The Farm Credit Act of 1971 currently authorizes limited loan participation between like institutions of the Farm Credit System. Federal land banks may participate in loans with other Federal land banks, banks for cooperatives may participate with other banks for cooperatives, but participation between unlike banking systems is not authorized. A Federal land bank may not participate with a bank for cooperatives.

Present authorization also includes authority for production credit associations and banks for cooperatives to participate loans with lenders outside the Farm Credit System, including commercial banks, ^{THIS} which authority does not extend to Federal land banks.

The principle purpose of item 14 is to authorize all institutions of the Farm Credit System greater latitude to participate loans, both within the Farm Credit System and with outside lenders. Amendment 14 authorizes all Farm Credit institutions to participate with any other Farm Credit institution, regardless of banking system, and also extends to Federal land banks the latitude to participate with commercial banks and other outside lenders.

By removing current restrictions on the type of loan participation permitted, this amendment provides the system with the flexibility to make more efficient use of its capital base and to more fully and responsively meet the credit needs of agriculture. The major benefit of this increased flexibility

provided by Amendment 14 is to substantially increase the effective lending limits available to large borrowers by combining the capital base of the entire Farm Credit System, while still restricting the risk exposure of any individual institution to any one borrower.

Another benefit is the improved efficiency and responsiveness resulting from the increased flexibility in establishing participation arrangements. No longer does a bank for cooperatives, for example, have to go to another bank for cooperatives in another city to arrange a loan participation. Instead, the bank for cooperatives can participate in the loan with the Federal land bank or Federal intermediate credit bank in the same district. Loans can, to a greater degree, be retained and serviced within the borrower's home district resulting in a better, more responsive service.

Although the number of farmer and cooperative borrowers directly benefiting from Amendment 14 is relatively small, the overall economic impact in providing better credit service to agriculture could be significant.

The Farm Credit Act Amendments item 14 removes from Farm Credit institutions current restrictions on their ability to participate in loans with other financial institutions, both within and without the Farm Credit System. The increased flexibility provided by Amendment 14 substantially increases the system's ability to make and service large loans in the most efficient and effective manner possible, thereby maximizing the system's ability to fully meet the credit needs of agriculture.

Amendment 19

As previously stated, production credit associations are currently authorized to participate in loans with commercial banks and other lenders. A commercial bank wishing to extend a loan exceeding its lending limit may do so by participating in a portion of that loan with a production credit association. From the borrower's standpoint, however, the credit relationship exists with only one lending institution, specifically the commercial bank. Loan participation is strictly a lender-to-lender transaction which does not affect the borrower's relationship with the originating lending institution.

Due to the borrower-owner structure of the Farm Credit System, non-voting shares of stock in the production credit association must be purchased in connection with each loan. Non-voting stock on an amount equal to not less than 5% of the loan participation is issued. Under the existing provisions of the Farm Credit Act of 1971, such non-voting stock must be issued to the farmer-borrower. Many commercial bankers find this requirement to be extremely awkward since it introduces a third party into the bank-to-borrower relationship.

The purpose of Amendment 19 is to authorize production credit associations to issue non-voting stock directly to the commercial bank or other lending institution that is originating the participation loan rather than to the farmer-borrower receiving the loan. This more direct relationship with the participating lender removes an impediment to loan participations and enhances the commercial banks' ability to provide adequate credit to those eligible borrowers exceeding the bank's

lending limit.

This proposal does not expand the eligibility or scope of financing permitted under current authority. Borrowers obtaining agricultural credit from a commercial bank or other lender whose loans are participated by a production credit association must still meet the same credit eligibility and scope of financing requirements as exist today. Neither does this proposal compromise or weaken the principle of borrower control on which the Farm Credit System is founded. It simply makes the lender-to-lender transactions involved in loan participation more rational and streamlined.

Amendment 19 facilitates participation loan programs with commercial banks and other lenders by allowing non-voting stock to be issued directly to the originating lenders. This proposal especially benefits small, rural banks by enhancing their ability to provide dependable credit to farmer-borrowers having credit needs exceeding the bank's legal lending limit while still adhering to sound business practices and controlling the risk exposure on such loans..

Gentlemen, we feel that items 3, 14 and 19 are in the interest of the many thousands of farmers served by the Farm Credit System and in the interest of the entire agricultural community. These proposals increase the System's flexibility to satisfy or participate in unusually large credit requirements in the most effective and responsive manner possible. Mr. Chairman, the Farm Credit Banks of Louisville are grateful to the Subcommittee for this opportunity to express their views. I would be pleased to respond to any questions.

Mr. JONES of Tennessee. That will conclude the witnesses unless someone has a problem with tomorrow? If not, will all the witnesses return so we can proceed with a few questions. I expect they'll be rather brief. We'll not be taking too much time, I'm sure.

As we start this, let me say that I appreciate the sincerity that's been demonstrated here this afternoon on the issue of conservation, the subject of conservation, and also that of credit.

We have devoted the afternoon to conservation only, but we had two or three problems here and I felt, and Mr. Madigan did, too, that we could accommodate some people by going ahead.

Ed, do you want to go with some questions?

This gentleman here on my left is the ranking member of the Subcommittee on Conservation and Credit, the Honorable Ed Madigan from the State of Illinois.

I've said this many times and I don't care who knows it, on the minority side Ed is the leading member on that side of the House for agriculture.

He's sincere. He works hard. I guess one reason I want to say that is that my thoughts and his run together; but I do appreciate him more than he knows, because he's been my right arm in a lot of this legislation that we've tried to put together.

This morning somebody alluded to the fact that we worked 3 years on a bill. Well, that's the truth. We have, and it's been a lot of fun and a lot of pleasure to have Ed Madigan where he is because he's very responsible and does a very fine job.

Incidentally, he lives in a section of the country that just really is great as far as agriculture is concerned. What is your home town?

Mr. MADIGAN. Lincoln.

Well, I'd like to say to you ladies and gentlemen that are interested in conservation that it's been an awakening experience for me to sit here and listen to you discuss the problems. It's certainly given me a greater appreciation for the kinds of things that Ed Jones has been trying to do in Washington.

In Illinois and central Illinois we don't have the kind of problems that you have. That doesn't mean that some day we won't have those problems, but I think that our problems, even though they exist, are minor compared to yours.

Ed Jones, as far as I'm concerned and I think as far as the other members of the Agriculture Committee are concerned, is really the only person doing any talking or any thinking about soil erosion problems.

After spending this afternoon listening to you fellows I understand the interest that he has much better, and I'm certainly going to try to be more attentive to the things that he has been trying to do.

I think you're very fortunate, and I say this as a Republican understanding there is an election next year. I think you're very fortunate to have Ed Jones in the U.S. Congress. I know that you're not going to make any mistakes next year, and I hope the people in central Illinois don't make any.

I don't want to ask any questions about the conservation issues because, as I said, it's something that has not been such a serious problem for me.

I do want to say that some of the people who spoke here this afternoon were certainly very impressive, and as I indicated, it was an educational experience for me.

I am anxious not to have these two gentlemen over on the left side get away from us without responding to a few questions about this rather multifaceted proposal that has been visited upon Mr. Jones and myself.

Mr. Farr, there are some things about this that concern me, because in so many different endeavors and areas of endeavors a person can find parallels.

You might be interested in knowing that some people who are talking to me are saying:

We think we ought to increase that 7 years to 10 years. We hope that you'll go along with that, but as customers of organizations chartered under the FCA, we're really not anxious to see them into all these other things, because it's been our experience that as they broaden their areas of interest and get involved in other things, the attention given to the farmer borrower has diminished, the competitiveness with commercial banks in terms of interest rates and other features has lessened. The Farm Credit Administration has been less of an organization for farmer producers than has been the case in the past. We hope that you'll go very slow.

This is what people are saying to me, people in Illinois and in other places that I have visited.

For example, when you want to decrease this 80 percent to 60 percent, in a parallel situation I had an airline ask me for a lot of help, and under a Republican administration and before airline deregulation I gave these fellows some help to enable them to expand their business and get bigger so that they could be more competitive, they said, and enjoy the economies of scale.

They got bigger. They are bigger. They serve a lot of towns they didn't serve before, but the towns that they were serving, the towns I was interested in, they aren't serving them any more.

Now we're looking around for another airline and we're going to start all over, and I wonder if what you are doing really doesn't represent the same kind of thing where someday somebody is going to come back to us and say, "We need some kind of lending apparatus to take care of the farmers because this organization that used to exist for that purpose seems now interested in doing all kinds of other things."

What kind of guarantee can you give us that that won't happen?

Mr. FARR. I guess, Mr. Madigan, I would have to say, hopefully, that we will be carrying on with our borrowers, our young people that will be coming into the bank, with the same spirit which we've had in the past, devoted to the farmers' needs, that will continue.

Hopefully, the annual report to Congress through Farm Credit will assure that we continue to serve our farmers. Really, a cooperative is nothing more than an extension of the farm, and the cooperative makeup is determined by the farmers who own it.

Really, most of the eligibility needs here come from maybe around the larger cities where you have a lot of farmers who have quit farming and still have sizable investments in the cooperatives. That's one area, investments in the cooperative, maybe still want to have a voice in there, a voting voice. That is one area which they've been requesting.

We approached that in the 1971 act when they wanted to lower the voting down to 60.

Also, in the 1971 act and a subsequent amendment, they lowered the voting medium for rural electrics to 70 to serve a portion of the rural electric families. You know, REA is providing a majority of it and the Congress could authorize them to go to supplemental lenders. We're just one of the supplemental lenders. That is one area.

As far as I'm concerned and I think the next generation following me in our banks, I don't think we'll get away from the dedication to the farmers which we have.

Most of our fellows are agricultural economics graduates. They come off the farms. They see the need there to continue serving the farmer.

Mr. MADIGAN. Mr. Jones and myself, as Members of the House of Representatives, have restrictions on us as to what our outside interests can be. So the only time I really get involved in anything any more is just when I'm helping my mother to do something.

Both you and Mr. Feltner intimated that it's inefficient to do business with two lenders. My mother presently has loans actually with three banks, and the reason she has loans with three banks is because when she was making the second loan and then when she made the third loan, there were more attractive rates of interest available to her.

She would probably be a little bit surprised to find out that you think it's inefficient for her to get a better rate of interest and go to a second lender.

Mr. FARR. I don't know whether I implied that. I'd like to say this: I'm familiar with our system.

In the Fourth District we have a lot of high quality and have joint lines with commercial banks, and really, that is good and we have no problems with them.

In the international scene right now, I feel like in this new export authority, if we get it, the commercial banks will be involved with us more than they are now. Some of them are with us and some of them aren't. We just don't have the complete picture, but I think that they will be working with us and we will be working with them more and more.

We have to have lines of credit and we have joint lines to our large grain co-ops with the large commercial banks. I have no major problem with them, as long as we have the same agreement when we go in how we're going to operate.

Mr. MADIGAN. If we're looking for efficiencies, economies of scale or whatever, why don't we combine the three branches of the system in one?

Mr. FARR. Perhaps that might come about some day. I've been in the system 27 years and I've seen it change and I would say that you'll see changes in the years ahead.

I think the wisdom of Congress will see some changes down the road. Our system is looking at it now to what should we do to provide a better service to the farmer or more complete service to where he can get a more efficient coordinated program.

I guess our policymakers and our boards of directors and the Federal Board and Congress—I'm an employee and, hopefully, they

will—maybe we can help them look at these situations that come about.

Mr. MADIGAN. The only other comment that I want to make to you is I keep looking to you, as I did to the witnesses this morning, for the justification for getting into the financing of exports, of agricultural exports.

What you suggested this afternoon is that grain quality has been a problem and that the cooperatives could do a better job of maintaining the quality of grain shipments, and that we would, by inference, all profit from that.

I thought you ought to know that at the time that the allegations of grain quality were most rampant, I went to Europe and I visited all the countries where there was supposed to be those complaints. That was in 1975.

The only complaint I could find was in Toolbury, England, and it dated back to 1973 when the CCC bins were being unloaded and a lot of old grain was being shipped.

I couldn't find a complaint anywhere in Europe newer than 1973 that honestly related to the quality of grain.

What I could find was that some Italian speculators who had paid too much for grain and were trying somehow to renegotiate the price by claiming quality problems.

Mr. Farr, I'm not trying to embarrass you because you enjoy an excellent reputation in the Congress and in the banking community. I just want you to know that as far as this member is concerned, the justification for all of this expanded activity is going to have to be a lot better than it has been this morning and this afternoon.

I don't have any other questions.

Mr. JONES of Tennessee. Thank you, Ed. I just want to join you in what you had to say about the consolidation of the banks and some of the updating of some of the problems that we've asked over and over again about to see whether or not the board and the three banks were thinking about anything of that sort in order to serve the membership a little bit more efficiently than they do in some cases today.

I must admit that I always get about the same answer that you gave us just now, because I can't get anybody to speak out and be specific about the position they want to take.

It seems to me that the time is fairly rapidly approaching that your big board and the rest of you are going to have to take a good look at whether or not you update your position to the point of consolidating the three branches.

I think a lot of thought is going to have to be directed in that direction.

I've made it pretty clear to most everybody that I've talked with, and I did this at the two hearings we've held, that I introduced the Farm Credit Administration bill by request. I don't want it to be known as the Jones bill, and I made that pretty clear at the time I introduced it, because I am not in total agreement with everything that H.R. 4782 embodies at the present time, and the Governor knows that. I've told him over and over again that that's the way I feel and I'll continue to feel that way until we get a little attention.

I want to reemphasize again that I don't have a very good feeling about you getting in the insurance business. I thought we settled that in

1971, and you might as well prepare yourself for some problems as far as the export proposal is concerned.

I've heard that at every hearing that I've been to, that you're going to face some opposition there.

We'll hear more about farm credit tomorrow.

Mr. LUTZ. Let me leave this with you, if I may.

I would like, while I'm walking, to just make one comment, and I know that you can do something about this.

You know, one of the highest costs to a farmer today is for chemicals.

Did you know that the average concentration active ingredients that compiles most farm chemicals is between 4.6 and 12.2 active ingredients, and the rest of them are inert.

I know you can't give free enterprise a kick in the head, but I would say this: In talking at a laboratory here in Memphis to an agricultural chemical engineer, he had already made a list. He is of the same interest. That the most popular herbicide in the country is 4.6 active—or 6.4, one of those two. I don't want to misquote him.

It could be concentrated to the point of 80 percent active and cut the cost by two-thirds and let the farmer use his own water. That's something to think about. Gentlemen, I hope you'll excuse me, but I've got a project going down here in Mississippi. Thank you very much.

Mr. JONES of Tennessee. Thank you for coming.

Tony Campbell, you talk like we might be closer together than we've been in the past. You gave me encouragement today.

Mr. CAMPBELL. I don't think we've been that far apart ever.

Mr. JONES of Tennessee. Well, I didn't think so either, but you almost convinced me once or twice.

Tony, I'll tell you what. Some of the things that you expounded upon appeal to me, and I must confess to you that we've had a lot of thought and a lot of discussions here of late about some of the problems that we face here in west Tennessee.

Ed, I think maybe you realize that in these 21 counties that lie west of the Tennessee River, we have more soil losses than anywhere in the United States, from 30 to 50 tons per acre per year.

Yesterday in Aberdeen and day before yesterday in Hutchinson, Kans., we learned the loss in those areas is approximately 5 tons per year, and that's about the build-back amount that you do build back through cultivation or through pasture renovation.

Mr. CRIHFELD. Mr. Jones, could I make a statement? I'm Talmage Carihfield with the Tennessee Association of Conservation Districts, and maybe this statement needs to be made and maybe it doesn't.

I didn't include it in my official statement, but I would like to say this. I know I speak for the Conservation Districts of the State of Tennessee, and I think Steve can correct me if I don't speak for the national policy.

We in no way support nor do we propose any form of a national, federally mandated, land-use program for agricultural land of any kind.

I think you concur in that, Mr. Chairman. We believe in the free enterprise system. We believe that that is the reason we have the agricultural system in this country that we have. We believe that we can use incentives and education to bring about some changes in this problem. We do not support a Federal land-use program of any kind.

Maybe I should have said it and maybe I shouldn't, but I thought that I would like to have that inserted into the record.

Mr. JONES of Tennessee. Well, I think most of us know the position of NACD and TACD, too, on that, and that's just what you've said it was, of course, Talmage.

On the issue of conservation, the situation is so serious that it's too big for any one person or any group of people, even your organization or anybody else's.

It's one that we're all going to have to work together on. Here we've been fooling around with it for a long time and as Bill Tanner pointed out, we're losing more soil now than we lost 30 or 40 years ago, I think you said 45 years ago maybe.

Of course, we've got to realize that our cultivation and farming practices have changed a great deal since those days, and one of the striking things that affects us as much as anything is the absentee ownership of land that we have in this country with no firm, contractual agreements that the renter has between the landowner who is an absentee owner and the person who is renting it and farming it.

I believe that we're going to have to look at that seriously. The absentee ownership of land continues to increase all over the country, and it's especially a big problem here in this area.

I think that we've got to update our ability to make contracts and stick with them and have it written into them in black and white that there are certain requirements which must be met if you rent that land and if you maintain it.

Mr. TANNER. Mr. Chairman, can I make one comment?

I thought a long time before I would advocate the zoning of privately owned farmland. In fact, I led a fight in our own county court against that very sort of thing when Federal flood insurance was the topic.

I don't think that anybody who believes in the sanctity of private ownership or in free enterprise more than I do. I've always believed in it and I believe in it now.

As I pointed out to you, I think that a private owner should have the right to do almost anything he wants within the law with his land except for one thing. I don't believe any individual has the right just because he owns land for a short period of time to destroy it for all the future generations, and that's precisely what some of our farmers are doing when they take the short-term view and plow up a hillside and put it in soybeans until it will no longer produce.

He has destroyed that, not only for himself but for all the time to come. We can lose more topsoil in one rain than you can build back in 25 years under the best of practices.

I don't believe anybody has that right to destroy land for future generations. I think that it's a selfish, senseless, criminal act to do that, to jeopardize the welfare of the country and the people coming along. I think the law ought to define it as a criminal act. People don't realize what they're doing sometime. They are just thinking of the short-term returns.

This erosion is a serious thing. I know that in Mr. Madigan's district—I've spent lots of time in that area buying livestock, and I know that in those level black cornbelt areas erosion is much less of

a problem than it is here; and yet, there must be some serious problems somewhere because for the State of Illinois, the average loss is 6.72 tons of soil per acre per year for the whole State.

Perhaps in southern Illinois or in some of the more rolling areas the loss is quite severe because that's considerably above what we can afford. This is such a pressing problem that sometimes we let our commitments and our ideals stand in the way of something that's absolutely necessary, and I think it's essential that we stop soil erosion and stop it now if we're going to continue to survive.

I think we've had an adequate time to prove that education and incentives haven't done the job, and I doubt seriously if they could. I know there's some talk about typing soil conservation to participation in the crop programs. I've been farming for 35 years, I suppose, and I've never turned down any Federal money through a crop program that I thought was really advantageous to me, even though I might have disapproved it. I've never turned it down, and yet all I ever got I wouldn't walk around the block for it.

I can't remember the last Federal money I collected for that sort of thing, and if I did, it was so insignificant. In the whole, it cost the Government a whole lot, but for an average farmer like me—I know there's some farmers in specialized areas maybe, producing one big crop, that have participated handsomely, but for many farmers it's nonexistent.

I couldn't care less whether we had Federal programs for me to participate in or not because they don't mean doodly-squat. And as far as enticing me to do soil conservation work, I wouldn't give it a second thought, and I don't think many other farmers would. If you make the incentives great enough to really be an enticement, my gosh, there's no telling what it would cost.

Mr. CRIEFELD. Mr. Chairman, we haven't engaged in a debate here with Mr. Tanner, but I want to make a couple of comments in response to what Mr. Tanner just said.

The point about incentives, the realistic point is that we've never had an incentive program. ACP has been at the \$190 million level for, gosh, I don't know how many years. You know more than I do, probably no more incentive money than \$2 million has ever come into west Tennessee.

We're talking about a program that would cost \$500 million to achieve. So when you look at that, we've really never had an incentive program to begin with. We've had a smidgen of an incentive program, but when we downgrade our incentive program, we really don't have anything to down grade anyway, because we haven't had enough money coming into these areas to really accomplish anything on the front end.

The second point I'd like to make is when we talk about a demonstration of field days that were held years ago that haven't seen results, I think that we're living in a new age from an agricultural standpoint in that techniques are different, we're dealing with a new group of farmers, and the total picture has changed.

Now, some of the old conservation practices still apply, but there are also numerous new conservation practices that need to be discussed and that need to be part of an overall educational program.

So I think when we start downgrading what's already been done, we need to take into perspective how much money we've spent, what we've done, and where we've gone, and where we are at this point, because I think that based on the amount of money we've had available and the technical assistance and so forth, I think we've done a pretty good job. I think our condition could be even worse than it is.

Mr. TANNER. Could I say one other thing? I just want to agree with him. I think they've done an excellent job, too, and there are some new practices, such as no till production of soybeans, which is of some benefit. I've been practicing it myself for a number of years.

But as you pointed out, we've had such a small amount of money that it wasn't a drop in the bucket. Now, if we had 500 million instead of 2 million, maybe so, but where is the 5—if you're realistic about it, there ain't no use to expect 500 million to replace 2 million. It ain't coming.

Mr. CRIEFIELD. I don't think we're advocating that, but I think we're advocating a basic redirection of our priorities within the department.

Let me make an observation to the Congressman Madigan. We welcome you to the State. We're pleased to have you with us. You seem to be a very fine gentleman, very knowledgeable.

We talk about no till and I for one do not practice no till for various reasons. One of the reasons that I don't practice it is because we've had tremendous problems with weed control. We're making some inroads into that kind of problem and I think that we're going to be looking at that in the future.

I have two planters parked under my equipment shed right now. One of them came at a cost of about \$11,000, and the other is somewhere in the area of in excess of \$10,000. One is a narrow row and one is a conventional row planter.

In order for me to practice no till on my own farm with my own equipment, it's going to require an additional investment to me of in excess of that amount of money to do so.

In order for me to do that, it needs to be demonstrated to me that this will work. I need to go out and see it on a farm in my county. Maybe it could be on my farm; I don't know, but I need to know that this kind of situation works.

In other words, if we, by Government mandate or however by incentive programs, if we expect farmers to become interested and get involved in trying to stop this serious problem—and it is a most serious problem—then we need to do some things that will allow for this kind of an educational process. That's what I mean when I talk about education. I wanted to clarify that.

Mr. TANNER. Well, I'm not against education.

Mr. JONES of Tennessee. Well, I think both of you are saying almost the same thing. You're just in a little disagreement on the way you might handle it.

Let me emphasize that the 10 States in the Great Plains program—and I know Don Bivens is very familiar with the Great Plains program, and I know Steve is and I guess you are, Talmage.

I've just come from out there and the majority of testimony that surrounded the conservation subject matter yesterday and the day

before regarded a recommendation for a continuation of the Great Plains program, and it doesn't involve all that much money.

Of course, they don't have the same problems that we have, and I'm not capable of discussing them on a technical basis myself, but I'm sure that Don can and others can who are with the Soil Conservation Service.

But without a doubt, the Great Plains program that involves almost 19 States, parts of 10 States in the West at least, and which expires in 1981, and this subcommittee has got to do something about, looks like a very, very practical program to take a look at to at least provide the needed areas of the whole country with a program similar to that.

In the testimony that we got out there, and the nature of it was the same as we've had here, from dedicated honest people who really wanted to get the job done, they all said, "We do want the continuation of the Great Plains program and we'd like to see the expenditures increased if possible."

I believe they get \$300 million, don't they, Don; is that about right? Thirty million, well, I thought it was more than that at one time.

But, anyway, I asked them the question: "Would you object to the next Great Plains program that's written to include the whole country that needs soil conservation reclamation?"

They said, "Absolutely not, we'd be proud to see it, as long as you don't affect the amount of money that we get."

So this subcommittee within the next year and a half has got to come up with some sort of a conservation program, and we've got to do it for the Great Plains, and it's something we need to be thinking about as to how we do it and what we do for our own people.

There's been a lot of projections made on how to handle conservation, and as has been pointed out here today, not every farm in the United States needs conservation protection or assistance. I'm sure SCS says that. I'm sure they make that statement. I think I've seen the figure where it says so many farms do need it, but I don't remember how many at this moment.

The truth of the matter is, there are many, many areas of this country of ours that need a lot of it that's not getting it today.

I go back to what I said awhile ago, that I sincerely believe that we've got a real problem with absentee ownership of lands. I believe something has got to be done to see to it that the people who own that land and the people who rent that land do it in such a manner that we do something for conservation, some sort of mandatory agreement in a contract that says if you rent my land, you've got to maintain these terraces or you've got to maintain these ditches or maintain this or that, or whatever. I don't know what all ought to be in it. I'm not one who can put all that together. But I just came up with an idea like that that I think would be helpful.

Then I think there are some ways that we can probably appropriate some money that wouldn't be costly or wouldn't cost the Government any money.

I'm sort of tired of having to vote for big budgets. I've made a pledge to help balance that budget and I'm going to do my best to do it, but I don't know why we couldn't take a leaf out of the book of the Highway Trust Fund and take a look at the success that we've

had building the Interstate Highway System, and do something in that regard for soil conservation.

It can be done, I believe, some way or other. Maybe not that way, but something in that regard, and I believe somebody knows how to do it.

Mr. McCALLA. Now explain how that Highway Trust Fund operates, will you?

Mr. JONES of Tennessee. Well, so much of the gasoline tax is set aside for the construction of the Interstate Highway System for every gallon that you buy, and maintenance.

Mr. MADIGAN. Or something like the soybean checkoff.

Mr. JONES of Tennessee. It could be done. You have to buy on your farm, and you've said so here today and many of you have, you've talked about how high equipment is today.

Whoever buys the stuff or whoever sells it, there could be some sort of a tax added that would go into a trust fund for the providing of conservation practices some way or other.

Industry couldn't operate today if it were not for the farmer. He's the backbone of the entire industrial organizations that we have in this country and all the plants.

Mr. BRUNSON. Mr. Chairman, I'd like to go back to the previous point that you were discussing, increasing—basically, you're talking about the Great Plains program or using that concept to target in on areas with serious problems.

Of course, we're sitting here in the middle of an area that's a serious problem. I believe we've said that enough already today.

I'd like to hear what Congressman Madigan has to say about this type of soil conservation policy where we would have essentially a base program or a minimum program. The areas that need little assistance would get little assistance, and we would take essentially the money and manpower that we've got and take into account inflation and use that resource to treat more heavily areas such as west Tennessee.

Politically, how would that ring?

Mr. MADIGAN. Where are you going to get the money? You're contemplating a general appropriation?

Mr. BRUNSON. No, I'm contemplating the base program that USDA has got now, the Soil Conservation Service. Of course, I would hope that we would not see this continued chipping away at it and reduction, but rather begin to increase a little bit.

I'm not talking about a new program. I'm talking about taking those funds. The areas that have had reasonable treatment would begin to lose manpower and technical assistance, ACP funds or what have you.

Through a national program it would be channeled into areas where the need was shown to be the greatest. In other words, ACP is divided pretty much on a crop land basis around the country now.

Mr. MADIGAN. You're talking about more money for Tennessee and less money for Illinois, and you want to know how I feel about it?

Mr. BRUNSON. Right, I want to know what Illinois would have to do about it.

Mr. MADIGAN. Well, I'm a representative of my constituents and sure that they would urge me to vote against that.

Mr. JONES of Tennessee. That's politically tough, no doubt about that.

Mr. MADIGAN. If I can just pursue that a moment, I would like to give an example.

We have an agricultural research laboratory in Peoria, Ill., that we think is a pretty good installation. Every year the U.S. Department of Agriculture tries to cut it out. Every year we have to fight to put it back in, just to hold on to what we've got.

Each time that we go to pass an agriculture bill, this is a problem that Ed Jones and Ed Madigan and everybody that's interested in agriculture has to face.

We literally are at the point that we have to gussie it up like a Christmas tree and put a lot of things in it for other people just to get a little bit in it for agriculture.

I'm sure Dick Feltner who was in the Department of Agriculture can tell you how many people in that Department are actually working on things that relate to farm production, food and fiber production, and how many are working on welfare programs. I'm sure that the ratio has already gone over the halfway mark; but that's a consequence of having to put things into the U.S. Department of Agriculture just in order to get the farm bill passed.

My own State is kind of a microcosm of what the problem is. We've got 24 Members of Congress and 12 of them are from one county. A vote for the U.S. Department of Agriculture budget doesn't mean a thing to half of our congressional district from the State of Illinois.

That situation isn't getting better; that's getting worse. After the next census and the next redistricting of Congress, the representation in Congress for agricultural areas is probably going to be less than what it is now.

There are going to be fewer Congressmen from downstate Illinois; fewer Congressmen from upstate New York; fewer Congressmen from the State of Ohio; more Congressmen from San Diego; more Congressmen from Phoenix and Tucson; more Congressmen from West Palm Beach and Orlando and places like that.

The thing is going to be redistributed again, so the difficulty in passing an agriculture bill is going to be worse in the future than it is now; and if you look to the Federal Government for new sources of funding for agricultural programs, you almost have to say at the same time, "And what can we do for the residents of the big cities that will represent an equal amount of money." In order to get a dollar, you've got to talk about spending two, and how can we get that \$2 expenditure, then, past the budget makers, past the Office of Management and Budget.

It just gets more and more and more difficult to do.

As witness, I had Bob Bergland on a TV program, and I said, "Why do you want to cut out this agricultural research lab at Peoria, Ill.? We think they're doing a lot of good things."

He said, "I think they are, too." He said, "I don't want to cut it out."

This is the Secretary of Agriculture talking on a television tape that's going to be broadcast. He said, "I don't want to cut it out. The Office of Management and Budget wants to cut it out."

They just go over it line item by line item on everybody's budget and cut out everything they can. So in that kind of atmosphere ; 1'

talking about increasing expenditures, and I tell you you've got a tough job ahead of you. You really do.

Mr. TANNER. Mr. Chairman, can I make one more comment and then I'll be quiet.

I think that Mr. Madigan has hit on the most basic point of all. Farmers are such a minority, and a decreasing minority at that, the Congress is more and more urban and consumer oriented, and I think it points up the utter futility of farmers, agriculture, depending upon the Federal Government for their well-being, because you've got a natural inborn conflict of interest there that we can't overcome.

Now, going a little further, that's one reason I would love to see the Federal Government lay down these guidelines that I was talking about in zoning this land.

If a farm, for example, is zoned for grass and if a man wants to sow soybeans there, you can make provision and say, "Well, you can grow soybeans if you install terraces or if you do this or if you do that." You can make provisions for upgrading it and so forth. It could be worked real well and would be a farmer-oriented, farmer-controlled sort of a thing, you see, that wasn't dependent upon appropriations from Congress to work.

As I drove down here, there's thousands of acres in west Tennessee that there is no other solution for them but to put them in grass. There is no conservation measure that will enable you to grow soybeans successfully on the side of a hill like that. It ought to be in grass, and nobody is going to put it in grass for any inducement unless they are required to.

Now, if this is a farm and it's zoned for grass when I buy that farm, I know it's zoned for grass and I know I'm going to have to graze that farm. If I don't want to do that, I don't have to buy it.

In my judgment, that's the only solution that has even a prayer of working any time in the foreseeable future, and it seems to me that the prospects for any other approach where we are depending on appropriations and inducements will grow dimmer as the years pass and as the agricultural percentage declines in the Nation.

Mr. CRIHFELD. Mr. Chairman, could I make one comment. I'm going to say one other thing and then I'm going to shut up, too.

Of course, you're not going to do it anyway, but when you decide to zone my land, I also want you to ration gas, because the moral equivalent of improper land use is improper energy use; and I don't think there's any particular—all segments of our society are using in excess.

So I think that's a moral judgment and not a physical judgment.

I would make one comment that I wanted to make a while ago, Mr. Jones, when we were talking about Federal farm payments based on use of a conservation plan.

One of the things that the Department of Agriculture might look into in lieu of a mandated program would be higher price supports for farms that practice proper conservation methods. In other words, some form of, quote, unquote, green ticket program or something that would allow for higher price support for those farmers who did participate in it, in a program such as this.

Mr. JONES of Tennessee. In other words, an incentive program. That's been talked about some. That's been pitched around a little bit.

Mr. McCalla. Mr. Chairman, this matter of economics is quite important.

I mentioned one farm in the discussion I made that we bought. We put it in grass for 5 years. We walked cattle over it and we walked them pretty successfully. The Ladyno—phonetic—faded out so we needed to do something about it to get it reestablished; and, therefore, you've got to do some minimum tillage or you've got to plow it up.

The next year we put it in soybeans and I suspect it made more money in 1 year in soybeans than it made in 5 years of cattle walking over it.

Now, it's a matter of economics. When you ask the farmer to reduce his income from a fixed figure, to cut it in half, you've got a real problem, because he'll do all sorts of things.

We're going to have to use minimum tillage and we're going to have to use some things to make some of those hillsides function in soybeans regardless of what we think because of the economics of it.

You can't ask a man who owns his land to cut his income in half. It would be just like asking a Congressman to reduce his salary in half. Now, gentlemen, you all don't much want to reduce it in half and I can understand that. There's a matter of necessity on it.

If you don't go to the economics of the situation, you're in real trouble because you can't legislate very well how a man is going to use his private land without having 10,000 lawsuits in the United States and some good lawyer is going to win a lot of those for the man who owns the land.

Mr. CAMPBELL. I'm the only one who lives in the city, I guess. I'm not a farmer and it's an interesting thing to me to sit here.

Cities were opposed to zoning for a lot of years and learned to live with it. You know, I don't like anybody telling me what I do on my acre of woods but they do, and at times with certain of my neighbors that I'm glad they do.

It seems to me that we're going to have to find a solution to this problem in west Tennessee beyond anything that we've talked about.

In studying it, I see two alternatives: Either go to zoning, which is extremely unpopular, or pass a law similar to what I believe Iowa has where you can erode all you want on your land, but the second that silt gets off your land then you're responsible for it. It holds a man responsible for the damage he does.

A good farmer doesn't have anything to worry about. The man that's going in there to maximize his property and get out is going to be penalized. I don't think, Congressman Jones, that the old incentives and programs are going to answer the problems that we have in west Tennessee for any number of reasons.

Mr. MADIGAN. I served on a board of zoning. The problem with this zoning thing is that if you zone a community and adopt a zoning plan in a community that did not exist before, you say that this area is going to be residential and this area is going to be light industrial and this area is going to be heavy industrial and this area is going to be commercial; and in large measure that's a recognition of what already exists there.

You don't go into an area that is industrial and say this area is going to be residential and you industries have got to get out of here. You don't do that.

What you're talking about, though, is a zoning program for farmland where you would in effect go in and say to the man, "You can't grow soybeans on the side of this hill any more." That man says, "I've got to have \$1,500 an acre income off this land to pay for it and you're going to reduce my income to \$700 an acre or \$500 an acre, and I can't even make the mortgage payment with that kind of program."

I don't think you can zone something after the fact and treat the individuals involved fairly, and I don't think you do that in community-type zoning.

You don't tell people that they have to move their factory or they have to move their store if it existed before the zoning law did. Absent doing that with agriculture zoning, I don't know what you would accomplish by that approach.

Mr. CAMPBELL. Well, all of us ought to consider that. That would be a problem, but would it be cheaper to go ahead and pay that man to convert that land to pasture, assure his income for some certain amount of time, than to continually fight the battle of soil erosion and rivers silting up and all the other problems we have associated with soil erosion.

Mr. MADIGAN. Then you get into the problem of the newspapers being able to say—and I assure you that they would—that you're paying this guy \$200,000 a year to grow nothing, or \$20,000 or \$80,000 or whatever it is. We've had enough criticism of that. We've been trying to get away from those kind of things with legislation that implemented payment limitations, \$20,000 payment limitations, \$40,000 payment limitations.

I think there's a practical experience in front of trying to do that that almost precludes that. The other thing that I was thinking about as I sat here that might make it possible to get some money as if this were portrayed as being an environmental issue rather than an agricultural issue, and you had the environmental groups out in front working on the problem rather than the agricultural groups.

Mr. CAMPBELL. Most of the environmental groups have been very involved. My organization is called an environmental organization, although I'd rather go as a conservation organization. They are very concerned about this.

Mr. CRIHFELD. I think, Tony, that a good bit of the progress that's been made right here in west Tennessee, Mr. Jones, can be laid to that specific kind of cooperation.

Mr. JONES of Tennessee. There's not any doubt about that.

Mr. CRIHFELD. No doubt about it.

Mr. JONES of Tennessee. Steve, did you have something?

Mr. BRUNSON. Yes. We've discussed economics all around here and Talmage and A. K. and I, we're volunteer workers and we're here representing ourselves and west Tennessee, and we're also representing soil conservation districts.

I'd like to make the point a little clearer that the Districts and the people that are involved in them are concerned about the loss of our soil resource base.

It's not the fact that we're here asking for money. We're looking for some help, certainly. We're looking for a lot of ways to insure that our generations still are able to enjoy the standards of living that are.

We'd like some help in settling the problem. You know, we're looking at a corn crop in this country this year that's going to be something over 70 billion bushels and average over 100 bushels per acre, and our soybean crop is going to average over 30 nationally.

When you have figures like that, it's hard to say that we are in a crisis situation as far as soil loss is concerned; but we're looking to the Congress for guidance. We're looking to improve our conservation programs, and it's not that we think we've got a problem that we've got to solve for ourselves now.

It's a problem that we foresee down the road, understanding that it's hard to legislate on something that's in the future. Maybe we're crying wolf, but we think there's a problem.

Mr. McCALLA. Mr. Chairman, Mr. Madigan, I don't know whether to hedge 25 percent of the cotton crop to date. I don't know whether to hedge it or not. One reason I don't know whether to hedge it or not is because we're at 65.27 on yesterday's market. Parity on cotton is about 99 cents. I can grow cotton for less than 99 cents. You know how that parity situation goes. If we got the same amount, it would be that.

It's a real problem in marketing and I think this is a real important thing and a decision to make, and we have to do the best we can on marketing; but these are real, real problems when we produce a good crop. One time we had two or three times, when we cut the amount of foreign stuff we could sell, you'd better believe that cost our farm \$30,000.

Gentlemen, that's not right. Something needs to be done about that sort of thing. Ed, that's what it cost us, because it went down to \$1 a bushel because the U.S. Department of Agriculture said, "We'll cut the shipments to Russia." It went down \$1 a bushel and it cost us \$30,000.

These are real problems. I don't know how to solve them, but you've got a lot of people in Congress that that's what they spend full time at and that's why we make this appeal to you.

You two gentlemen understand it probably better than any Congressmen we've got there, but this is something that really needs to be considered, and when we talk about parity, we need to get the story over to everybody that there's a fairness about the situation.

We're going to make a living some way, the three of us farmers out here, because we've worked at it a long time. We have to go with the Government programs.

Used to be I tried to convince the Congressmen, Mr. Madigan, that let's change that. I quit that. Now I say what is the Government program and let's see how I can fit what I'm doing into it.

Mr. JONES of Tennessee. The truth of the matter is we don't have many farm programs any more. When you really look at it, you have hardly any that bring any compensation to you.

Mr. MOSER. I don't want to close it on a negative feeling. I think this problem can be worked out and it's going to have to be.

I can foresee that gentlemen like the two Congressmen here and I'm sure some more than can come up with some ideas, but I can't see that the urban Congressmen and Senators can see a 40-year loan for a man to build a home through the Farmers Home or FHA, that it won't

mean as much to this country for a 40-year loan to a farmer or a landowner, whichever the case may be, for some form of soil conservation practices.

There's a key somewhere, and I know on this end—and I can't see why you can't pick west Tennessee. It's the worst in the Nation, and come up with some incentive program, tax or long-term loan. Let's see if it will work voluntarily.

We've got a whopping problem of 50 to 60 percent absentee landowners and we keep forgetting this. We keep saying farmer and we need to be saying landowner.

Now, I rode with a gentleman to his farm several years ago and we got in the truck. I said, "Where is your land?" I was going to try to rent it.

He said, "Well, I don't know where that farm is."

I said, "Well, how are we going to find it?" I said, "You've never been on it since you had it?"

He said, "No, my daddy left it to me 20 or 30 years ago."

I said, "You've never been on it?"

He said, "No, because when I go out there, they'll ask me to do something on the land, spend some money. I've never gone."

It's a whopping problem. I say we try an incentive of some kind and I think the landowner ought to be paying. If I put money in something, I'm going to be very interested in it.

Low-interest, long-term loan, and take west Tennessee or three or four bad areas in this country and key on them and it will work. I believe it will.

Mr. JONES of Tennessee. I want to yield to Mr. Madigan for a brief moment here.

Mr. MADIGAN. You mentioned the embargoes. This is not part of my story, but Ed Jones and I were opposed to those embargoes. That was done down at the U.S. Department of Agriculture when Dick Feltner was down there.

That's not my story. When you mentioned embargoes, it reminded me of a story that an implement dealer in Logan County, Ill., told me. I don't know if this is a true story or not because this fellow is kind of a storyteller.

He said there was a farmer. He'd been trying to sell this fellow a John Deere tractor. He went out one year and talked to him and the guy was complaining about the weather and he couldn't sell him a tractor.

He went back the next year and the guy was complaining about the prices and he couldn't sell him a tractor; and the next year, which was 1975, he went out to try to sell the fellow a tractor and the guy was complaining about the embargoes.

So in 1976 the weather was beautiful and the crop was beautiful, and the overseas market was good, the price was up and the President of the United States was making speeches saying, "Agriculture will not be a tool of foreign policy. There's not going to be any embargoes."

The morning the President said that, this guy jumped in his car and he rushed out to this fellow's house to sell him a tractor.

He said, "Now look, the weather is beautiful, the price is good. Look at that crop, you've got the best crop you ever had, and the President

says there's not going to be any embargo. How about that tractor?"

And he said that old farmer stood there and he turned around and he looked at that crop and he said, "Awful hard on the ground." [Laughter.]

Mr. JONES of Tennessee. Well, that's a good story. Let me make a brief statement about something that I experienced when the embargoes were taking place and the prices of soybeans began to get to be \$4 and things were pretty good.

In the wintertime—I hadn't been in the Congress too long then, about two terms, I suppose. I don't remember, but anyway, no matter where I went, to a sales barn or anyplace where there were farmers congregated, they always gave me a world of advice.

What they'd actually say to me, Bill, was this: "Congressman, you be sure to see that the Department of Agriculture and the U.S. Government stay out of the farmers' business. We don't need any Government controls or any Government help."

By the way, that changed about a year or two ago, and those same guys all marched to Washington and asked for a little aid and assistance.

We've talked about that several times, but it did happen. So, you know, it just depends on how the times are and what the conditions are as to how you feel about this.

I want to say this and I think we should conclude: The conservation problem is nationwide, of course, and it's going to be more difficult to come by and improve now than it was a few years back, because with the recognition of Red China, the world markets that the United States has today and is going to have in the future, are just going to challenge farmers to grow more and more and more.

It's going to be more and more difficult to control this soil some way or other.

That's the reason I continue to insist that we've got to look at some sort of a program that has some built-in incentives in it, and that we've got to do something with the person who owns the land but doesn't farm it and rents it out and lives in Florida and expects the biggest check each year that he possibly can get from the renter and cares nothing about the land just as Buddy Moses illustrated.

It's a real, real serious problem.

Jerry, I want to thank you for being here. Jerry Baron is on Senator Baker's staff and he's been with us all day and we appreciate it very much.

If there's nothing more, we'll recess until 9:30 in the morning and we thank all of you for being here.

[Whereupon, at 4:45 p.m., the hearing was recessed, to reconvene at 9:30 a.m., Friday, October 5, 1979, at the same place.]

FEDERAL CONSERVATION AND FARM CREDIT ACT AMENDMENTS

FRIDAY, OCTOBER 5, 1979

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CONSERVATION AND CREDIT
OF THE COMMITTEE ON AGRICULTURE,
Memphis, Tenn.

The subcommittee met, pursuant to order, at 9:30 a.m., in room 936, U.S. Federal Building and Courthouse, Memphis, Tenn., Hon. Ed Jones of Tennessee (chairman of the subcommittee) presiding.

Present: Representative Edward Madigan.

Staff present: Robert Cashdollar and Frank Winston.

OPENING REMARKS OF HON. ED JONES, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TENNESSEE

Mr. JONES of Tennessee. Good morning, ladies and gentlemen.

We're here for the second day of hearings on two subjects of legislation, that of conservation and credit, the subcommittee that handles Farm Credit Administration's legislation, as well as the conservation of this country of ours.

Yesterday we had a very splendid group. The testimony went well and a number of very good questions were asked and answered.

I might tell you that on Tuesday of this week we were at Hutchinson, Kans., and did a similar job and then moved to Aberdeen, S. Dak., for a day of hearing, and then here in Memphis for 2 days.

I'm very pleased that all of you are here today. There are very few ground rules that we have as far as testimony is concerned, and I'll be brief and to the point and tell you how they'll be handled.

No time limit is placed on anyone after we look at the list and think that we can complete it. However, we do ask you to be as brief as possible, as thorough as you'd like to be; and if you have a written statement that you want to summarize, the entire statement will become a part of the record.

Yesterday we had a number who summarized and then some who read their statements. Many of those statements were brief.

Our witness list this morning consists of 18 people between now and 12 o'clock. The method that we follow is that we hear all the witnesses and then ask you to come back and questions will be asked at that time.

My counterpart on the subcommittee, the ranking member on the minority side, is Congressman Madigan of Illinois. He will be here in a few moments, but he must leave at 12:55 to go to Washington.

Some of us will be here all day long for the purpose of listening. I do want to say that I appreciate the interest that you have shown by being here.

Yesterday the group remained until we were finished, and much enthusiasm and interest was manifested by so staying all day long. I do appreciate those who are here from my home congressional district, as well as outside my congressional district, and from the States of Arkansas, Mississippi, and Missouri. I believe we also have a witness or two from Louisiana this morning. This shows that there's a great deal of interest in the subjects that we're trying to cover.

The Subcommittee on Conservation and Credit is one of the heavier obligated subcommittee of the full Committee on Agriculture. We have, it seems, more responsibility than the majority of the subcommittees.

However, we work at it, and we have a splendid membership on the subcommittee on both sides of the aisle. We try our best to share the problems and come forth with legislation that is what the people want. That's the reason we've come to the community to listen.

I've been in Congress 11 years and I've been on the Committee on Agriculture since I've been there, and I've been chairman of this subcommittee into my fourth year.

That has been our philosophy, that we get out with the people and listen, rather than to listen to so much professionalism that comes to Washington for testimony.

We believe that we do a better job of writing legislation that's commensurate to what the people back home need and desire.

This morning our first witness is a friend of mine, and the man accompanying him is also of the same likeness.

Mr. Parks Tigrett of Newbern, Tenn., is a farmer, an insurance man, and a community worker, intensely interested in what takes place as far as the community goes.

He's accompanied by Mr. Richard Binkley, who is a farmer and banker, and also a close friend of mine.

I'm glad that you gentlemen are here. Parks, you may come to the podium and we'll be glad to hear you. I hope you'll stay for the morning session so we can ask you some questions later, at least be subjected to some questions.

Richard, if you want to come on the front seat, just come along, too, or sit where you are. These meetings are very informal. We don't try to make them anything but just country style.

STATEMENT OF PARKS TIGRETT, INDEPENDENT INSURANCE AGENTS OF AMERICA, NEWBERN, TENN., ACCOMPANIED BY RICHARD BINKLEY

Mr. TIGRETT. I am here on behalf of the Independent Insurers of Tennessee and the Independent Insurance Agents of America. We are filing our objections to the PCA and Federal land bank entering as insurance interests in the field incomplete.

I want to just hit a few highlights of them. Mr. Binkley has a copy for everybody, which will be filed.

We believe that this Farm Credit Act of 1971 which permits PCA and Federal land banks to provide financial related services and they've gone into the insurance business with that.

It is our contention and I think it was the intention of Congress that the need for the services was based on persuasive evidence that the membership need for interest in the proposed services is sufficient to insure that the quality of service cannot be provided at a reasonable cost.

If there is any place in the United States where the Federal land bank and production credit can operate successfully and there's not successful insurance people available, I'd like to know. I'd be glad to open an office there. Our trouble is too competitive.

We think the Congress intended only limited insurance activity when they put those financially related services into their bill. Congress intended such limited insurance activities because it was potentially unfair competition with unaffiliated businesses.

I think the record will show you, Mr. Congressman, that where these pilot programs have been in existence in the Carolinas, New Orleans, and St. Louis offices, that many of the PCA's are ignoring the limitations Congress intended to impose upon these insurance programs, and are promoting them as a means of making money.

Some places, I am told, they even are giving it back to the borrowers, the commissions, saying it's lowering the interest rate. In our terminology in the insurance business, that's rebating. We're prohibited by law from doing that.

It's certainly unfair competition for Government-supported organizations to be allowed to do it.

They are writing liability package policies. Some associations have gone so far as to say even the liability insurance on an automobile is part of the credit risk; that this borrower has to have it to get back and forward to work.

The Farm Credit Act is not enforcing its own policy. I think you'll be one of the first to agree it's almost impossible to police a policy of this nature.

In quoting the report of the Commission on Agricultural Credit, whose recommendations led the Congress to permit farm credit institutions to undertake financially related services provided with regard to such services the availability of competent services through other normal channels should be recognized and they are provided at reasonable cost, the system should not develop competing services, but assist its members in the profitable area of such services.

I think you'll find that that has been badly abused and there's no way really to police it.

It's been my experience the PCA, the Farm Home Administration, and the Federal land banks are doing a beautiful job of lending money.

Mr. Binkley who is here with me today is a banker. I am happy to be a director in the bank. There's no way the banks of our country can finance the farmers and doing what the PCA and the Farm Home Administration are doing.

Don't diversify their interests. Let them keep loaning money, what they're supposed to do; don't put them in competition with local in-

urance people who make a living doing that. Don't diversify their interests. Let them keep doing a beautiful job of loaning money. Thank you.

Mr. JONES of Tennessee. Thank you very much, Parks. If you'll provide Bob a copy of your testimony for the record.

Richard, do you have a statement?

Mr. BINKLEY. No, sir; he did mine.

Mr. JONES of Tennessee. We appreciate very much your interest in this endeavor, and I might add that we've had others who were here yesterday, and also on Wednesday and Tuesday at the other hearings, who expressed the same sentiments that you did.

[The above referred to statement and additional material follow:]



INDEPENDENT INSURANCE AGENTS of ARKANSAS

621 MAIN STREET
LITTLE ROCK, ARKANSAS 72201

501 375-7347

POSITION STATEMENT REGARDING: PRODUCTION CREDIT ASSOCIATION INSURANCE ACTIVITIES

The Independent Insurance Agents of Arkansas fully support the purpose for which the Federal Farm Credit System was created and our local Production Credit Associations which are invaluable assets to the many Arkansas communities that they serve. However, the Independent Insurance Agents of Arkansas are concerned that the system has expanded its "Financially Related Services" beyond the scope of the original intent of the law to offer direct competition with private enterprises without regard to establishing "need" for such services.

The Farm Credit Act was established primarily to serve the credit needs of farmers. Included in the Act were regulations which allowed Production Credit Associations to provide related financial services, but only if the need for such services has been established, and only on approval of the Farm Credit Administration. PCA's have begun offering insurance for their loan customers as part of a pilot project in three or more Federal Land Bank Districts since 1971 and based upon inquiries from our National Association and your office have agreed to halt these activities until further studies were made. The PCA's insurance activities have continued and the Independent Insurance Agents of Arkansas feel that the Farm Credit Administration is not complying with the intent of the Farm Credit Act and is not enforcing the need requirement expressed in Section 618.6010 of their regulation pertaining to "related financial services". In support of these allegations we offer the following statements:

- (1) We feel that Congress intended for the PCA's to offer insurance services only after the Farm Credit Administration had determined that there was "persuasive evidence" that similar insurance service was not being provided adequately (cost, quality, availability) by others in the community. We are concerned because the Farm Credit Administration has not enforced the aforementioned need requirement before authorizing the sale of such insurance in its current pilot projects.
- (2) We feel that PCA's enjoy competitive advantages over unaffiliated insurance agents because as credit granting institutions, they have the ability to tie the sale of insurance to the extension of credit. They have detailed knowledge of a client's financial profile and existing insurance coverages and expirations. They are able to reduce operating cost with the income generated by insurance sales, and pass those overhead savings on to their customers through reduced loan rates. Finally, they often enjoy a number of local and state tax advantages, and can borrow money from Federal Intermediate Credit Banks which are exempt from federal income tax.

The State of Arkansas has one of the strongest and lowest limits on interest that can be charged to a borrower. With our State' 10% limit, all of us understand "all to well" what effect this is having on the lenders and borrowers.

We support the principal of granting the Farm Credit Administration the means to lend money on a profitable basis. The problem, however, is the cost of money and the restrictions on what they can charge for it, and this is the matter that should be properly pursued. PCA's should not use their "clout" to engage in what at the very best is obviously unfair competition and at the worst is unlawful.

The immense "Power over Credit" is the basic reason for the traditional federal and state policy that banking and commerce should remain separate. It is our belief that Congress did not and does not intend to change this policy.

The Independent Insurance Agents of Arkansas recommend (1) that the current Farm Credit Administration pilot project for PCA insurance activities cease and (2) that Congress establish clarifying legislation with formal, explicit, rule-making procedures for determining a need for PCA insurance activities in specific locations before approving such activities.

INDEPENDENT INSURANCE AGENTS OF ARKANSAS

Statements Presented to

The Conservation and Credit Sub Committee of the House Committee on Agriculture

Memphis, Tennessee - October 5, 1979

As hearings are being conducted on legislation to make refinements in the Farm Credit Act, the IIA of Arkansas thought it appropriate to raise the issue of Insurance activities engaged in by the Farm Credit Administration.

1. It is our understanding that Congress did not intend to authorize the FCA to conduct insurance activities unless comparable services were not available through unaffiliated private businesses. In other words any insurance activity on the part of PCA's, etc. would not be designed to supplement their income but instead be offered as a not otherwise available service.

FCA and PCA's are ignoring limitations that Congress intended to impose on these insurance programs and they are continuing to promote them.

The FCA is not enforcing its own regulations and Board policy to authorize the sale of insurance only where the association can show that there is a lack of availability of such coverages through normal business channels at a reasonable price. The FCA also represented to Congress in hearings on the 1971 ACT, that there would be no such activities unless a need was evident.

FCA should institute procedures that will assure that a fair determination has been made that there is a need for a particular insurance service in a particular community. Unaffiliated businesses should have an opportunity to offer comment or better yet to participate in their determination on this "need criteria".

Documentary Evidence:

Report of the Commission on Agricultural Credit, the proposals of which ultimately emerged as the Farm Credit Act of 1971:

- (1) The term "credit related" should mean such business services as recordkeeping, credit life insurance, and estate planning.
- (2) Credit related services should be undertaken only when a substantial number of members, on an Association of district-wide basis, have a need for the System to provide such services.
- (3) The primary consideration in offering any service should be the benefit it provides members and the lender in using and extending credit, and not the remuneration which may accrue to the Banks or Associations
- (4) The availability of competent services through other normal business channels should be recognized and, where they are provided at reasonable cost, the System should not develop competing services but assist members in the profitable use of such services.

4. Referring to Conference Report on the Farm Credit Act of 1971

It is our understanding that conferees discussed at length the scope of insurance services that should properly be made available to eligible borrowers. Most of this discussion had to do with Credit Life Insurance and specifically mentioned that the sale of liability insurance and any insurance on private passenger automobiles, etc. could not be considered necessary and incident to the functions of these lending institutions but that they should be able to sell insurance as may be necessary to protect the loans. Again not intending to put the institutions into direct competition with the private insurance business. It was also pointed out of course it was no the intent of the conferees that the borrowers insurance necessarily be purchased through the Farm Credit System lender and that these lenders should appropriately notify the borrowers that they possess the option of buying the insurance needed to secure the loan elsewhere if they so wished.

1 The Farm Credit System in the 70's at 21

(1) Also from the Conference Report:

"The need factor has been evaluated at the local district and Federal Board levels. This approval procedure should reassure the committee that the system is only concerned with providing services where member owners have determined that real needs exist."²

(2) In presenting the Conference Report to the House, Congressman Poage stated:

"I shall not take the time of the House to elaborate on the substance of the conference agreement. The details are included in the statement of managers. I would only mention that there was considerable controversy over House report language dealing with the insurance services which should be rendered by Farm Credit System lenders to their members. The House report language was quite restrictive while the Senate report was silent on the issue. In conference, we worked out report language which we feel will permit the Farm Credit System to adequately serve its borrowers without endangering legitimate insurance agents and companies with unfair competition."³

(3) Farm Credit Administration Regulation, Section 618.8010:

"d) Bank Board approval for an association to offer a financially related service program shall be conditioned on the application of a feasibility determination including the following four criteria.

2 Id., P. 53.

3 117 Cong. Rec. H11538 (Daily Ed., Dec.1, 1971). (Emphasis added

- (1) Needed for the service based on persuasive evidence that membership need for and interest in the proposed service is sufficient to insure that a quality service can be provided at reasonable cost and that similar service is not being provided adequately (cost, quality, availability) by others in the community". (emphasis added). Section 618.8010

- (4) Excerpt from Federal Farm Credit Board Policy Statement on Financially Related Services, formulated and approved by the Board in February, 1974"

"—The primary consideration in offering any service should be the benefit it provides members and the lenders rather than the remuneration which may accrue to the banks or associations. Consistent with the policy of the law, these services should be undertaken only when there is evidence of lack of availability as to convenience, quality, or cost and there is sufficient interest on an association or district-wide basis to assure that the service will be at least self-sustaining—"

"—When request for approval of a service is made, the request shall be supported by an in-depth study determining the feasibility of the service and the contribution it provides in meeting the objective of the System. The submission should document the nature of the program, those to whom it will be offered and the basis on which the service is judged to meet the tests set forth in Section 8010 of the Farm Credit Administration Regulations."

"Farm Credit Administration approval shall be based on the determination that legal authority to offer the service exists, an administrative determination that the proposed service can be authorized, and that the submission establishes the need for the service to be offered."

5. Advantages farm credit associations enjoy over unaffiliated insurance agents:

Farm credit institutions derive significant advantages over unaffiliated insurance agents by reason of their status as federal instrumentalities, which are quasi-government entities. They are able to offer such attractive interest rates for a number of reasons. First, both the institutions and the notes they issue are accorded preferential tax treatment. Interest on the notes that FLBAs and FCAs issue to raise the capital necessary for loans are exempt from state and local taxation, making them extremely attractive investments. In addition, FLBAs, and Federal Intermediate Credit Banks are exempt from federal income tax. FCAs are not exempt from federal income tax, but they derive advantages from issuing notes that are partially tax exempt and from being able to borrow money from Federal Intermediate Credit Banks which are tax exempt.

We do not object to these advantages as the FCA has been very helpful to the Agricultural Industry and as a result has been of great help to this entire country—however, these advantages have made the farm credit administration a powerful lending institution and as such they have the important "Power over Credit" What this means is that the borrower in order to improve his chances of getting a loan, will prove to the loan officer that he is a good customer by purchasing the other services the lending institution sells such as insurance. The loan officer may also give subtle, and sometimes coercive

suggestions that the borrower stands a better chance of getting a loan if he also purchases his insurance from the lending institution. These tie-ins destroy the freedom of choice of the borrower and are impossible to police because the borrower is unwilling to expose the arrangement and jeopardize his future ability to get credit, and even if he is willing, there is rarely sufficient written evidence to succeed in a lawsuit.

The State of Arkansas has one of the strongest and lowest limits on interest that can be charged to a borrower. With our State's 10% limit all of us understand "all too well" what effect this is having on the lenders and borrowers.

We support the principal of granting FCA the means to lend money on a profitable basis. The problem, however, is the cost of money and the restrictions on what they can charge for it, and this is the matter that should be properly pursued. FCA's should not use their "clout" to engage in what at the very best is obviously unfair competition and at the worst is unlawful.

The immense "Power over Credit" is the basic reason for the traditional federal and state policy that banking and commerce should remain separate. It is our belief that Congress did not and does not intend to change this policy and the Independent Insurance Agents of Arkansas would, therefore, like to submit for this committee's consideration the following recommendations:

- (1) That the current Farm Credit Administration pilot projects for FCA insurance activities cease and
- (2) That Congress establish clarifying legislation with formal, explicit, rule-making procedures for determining a need for FCA insurance activities in specific locations.

MEMORANDUM

Independent Insurance Agents of America

INCORPORATED



(1) Congress intended only limited insurance activities to protect primary function of extending agricultural credit; not broad insurance programs designed to supplement the income of PCAs and FELAs. Congress intended such limited insurance activities because of the potential of unfair competition with unaffiliated businesses.

- PCAs are ignoring limitations Congress intended to impose on these insurance programs and are promoting them as real money-makers for the associations and farmers resulting in unfair competition to unaffiliated businesses.
- They are writing liability coverages and packages, and property insurance on property that is not collateral when Congress intended the insurance to be limited to credit life, crop hail, and property coverage "against loss of any collateral securing a loan...for the full value of such collateral."

(2) The FCA is not enforcing its own regulations and Board policy to authorize the sale of insurance only where the association can show that there is a lack of availability of such coverages through normal business channels at a reasonable price. The FCA also represented to Congress in hearings on the 1971 Act, that there would be such an assessment of need.

- FCA must institute procedures that will assure a fair determination that there is a need for a particular insurance service in a particular community. Unaffiliated businesses should have an opportunity to offer comment.

Documentary Evidence:

Report of the Commission on Agricultural Credit, the proposals of which ultimately emerged as the Farm Credit Act of 1971:

- "(1) The term "credit related" should mean such business services as recordkeeping, credit life insurance, and estate planning. The term does not include services relating to the physical farming operation.
- (2) Credit related services should be undertaken only when a substantial number of members, on an Association or district-wide basis, have a need for the System to provide such services.
- (3) The primary consideration in offering any service should be the benefit it provides members and the lender in using and extending credit, and not the remuneration which may accrue to the Banks or Associations.
- (4) The availability of competent services through other normal business channels should be recognized and, where they are provided at reasonable cost, the System should not develop competing services but assist members in the profitable use of such services!"¹

Conference Report on the Farm Credit Act of 1971:

"The conferees discussed at length the scope of insurance services that should properly be made available to eligible borrowers. It is felt that the sale of liability insurance, and any insurance on passenger automobiles is not "necessary and incident" to the functions of the lending institutions; but that they should be able to sell such insurance as may be necessary to protect the loan. Thus, credit life insurance could be sold in an amount appropriate to insure repayment of the loan, and insurance against loss of any collateral securing a loan could be sold for the full value of such collateral. It is of course not the intent of the conferees that the borrowers' insurance necessarily be purchased through the Farm Credit System lender. These lenders should appropriately notify the borrowers that they possess the option of buying the insurance needed to secure the loan elsewhere if they so wish."²

¹ The Farm Credit System in the '70's at 21. (Emphasis added)

² Conference Report No. 92-679, 92d Cong., 1st Sess. 50, 54, 55 (1971). (Emphasis added)

Also from the Conference Report:

"The need factor has been evaluated at the local district and Federal Board levels. This approval procedure should reassure the committee that the system is only concerned with providing services where member owners have determined that real needs exist."³

In presenting the Conference Report to the House, Congressman Poage stated:

"I shall not take the time of the House to elaborate on the substance of the conference agreement. The details are included in the statement of managers. I would only mention that there was considerable controversy over House report language dealing with the insurance services which should be rendered by Farm Credit System lenders to their members. The House report language was quite restrictive while the Senate report was silent on the issue. In conference, we worked out report language which we feel will permit the Farm Credit System to adequately serve its borrowers without endangering legitimate insurance agents and companies with unfair competition."⁴

Farm Credit Administration Regulation, Section 618.8010:

"(d) Bank Board approval for an association to offer a financially related service program shall be conditioned on the application of a feasibility determination including the following four criteria.

- (1) Need for the service based on persuasive evidence that membership need for and interest in the proposed service is sufficient to insure that a quality service can be provided at reasonable cost and that similar service is not being provided adequately (cost, quality, availability) by others in the community". (Emphasis added). (Section 618.8010)

Excerpt from Federal Farm Credit Board Policy Statement on Financially Related Services, formulated and approved by the Board in February, 1974:

The primary consideration in offering any service should be the benefit it provides members and the lenders rather than the remuneration which may accrue to the banks or associations. Consistent with the policy of the law, these services should be

³Id., p. 53.

4117 Cong. Rec. H11538 (Daily Ed., Dec. 1, 1971). (Emphasis added)

undertaken only when there is evidence of lack of availability as to convenience, quality, or cost and there is sufficient interest on an association or district-wide basis to assure that the service will be at least self-sustaining..."

"...When request for approval of a service is made, the request shall be supported by an in-depth study determining the feasibility of the service and the contribution it provides in meeting the objective of the System. The submission should document the nature of the program, those to whom it will be offered, and the basis upon which the service is judged to meet the tests set forth in Section 8010 of the Farm Credit Administration Regulations..

"Farm Credit Administration approval shall be based on the determination that legal authority to offer the service exists, an administrative determination that the proposed service can be authorized, and that the submission establishes the need for the service to be offered."

Some characteristic PCA solicitations are attached.

What advantages do farm credit institutions enjoy over unaffiliated insurance agencies?

Farm credit institutions derive significant advantages over unaffiliated insurance agents by reason of their status as federal instrumentalities, which are quasi-government entities. They are able to offer such attractive interest rates for a number of reasons. First, both the institutions and the notes they issue are accorded preferential tax treatment. Interest on the notes that FLRAs and PCAs issue to raise the capital necessary for loans is exempt from state and local taxation making them extremely attractive investments. In addition, FLRAs, the Federal Land Banks, and Federal Intermediate Credit Banks are exempt from federal income tax. PCAs are not exempt from federal income tax, but they derive advantages from issuing notes that are partially tax exempt and from being able to borrow money from Federal Intermediate Credit Banks which are tax exempt.

Another reason why notes issued by Farm Credit lending institutions are offered comparatively low interest rates is because these securities are considered extremely safe investments, because of a feeling that since they are issued by federal instrumentalities, the federal government would not permit them to go unpaid.

As members of the Farm Credit System, Farm Credit lending institutions receive the further advantages of being able to call upon the expertise, services, and support of the Farm Credit Administration, a government agency, and in having a ready supply of credit from the other institutions in the system.

Finally but importantly, farm credit institutions are substantial lending institutions, and as such, have the important "Power over Credit". What this means is that the borrower, in order to improve his chances of getting a loan, will prove to the loan officer that he is a good customer by purchasing the other services the lending institution sells such as insurance. The loan officer may also give subtle, and sometimes coercive suggestions that the borrower stands a better chance of getting a loan if he also purchases his insurance from the lending institution. These tie-ins destroy the freedom of choice of the borrower and are impossible to police because the borrower is unwilling to expose the arrangement and jeopardize his future ability to get credit, and even if he is willing, there is rarely sufficient written evidence to succeed in a lawsuit. This immense "Power over Credit" is the basic reason for the traditional federal and state policy that banking and commerce should remain separate.

ISSUE: Production Credit Association Insurance Activities

BACKGROUND: Part of the Farm Credit System, Production Credit Associations (PCAs) were established by the Farm Credit Act of 1971 primarily to serve the credit needs of farmers. The Act also permits them to sell certain, limited lines of property and casualty insurance, but only if the need for such service has been established, and only on approval of the Farm Credit Administration. PCAs have offered insurance to their loan customers as part of a pilot project in three federal land bank districts since 1971.

PCAs enjoy several competitive advantages over unaffiliated insurance agents. As credit granting institutions, they have the ability to tie insurance sales to credit. They have detailed knowledge of a client's financial profile and existing insurance coverages and expiration. They are able to reduce operating costs with the income generated by insurance sales, and pass those overhead savings on to their customers through reduced loan rates. Finally, they enjoy a number of local and state tax advantages, and an exemption from Federal Intermediate Credit Banks which are exempt from federal income tax.

For these reasons, Congress was careful to limit PCA insurance activities to insurance on collateral for loans. Moreover, this insurance could be offered only after the Farm Credit Administration had determined that adequate insurance coverage was otherwise unavailable to PCA customers. PCA insurance activity in the pilot program indicates that these restrictions have not been observed.

EXPECTED ACTION: After several unsuccessful attempts to persuade the Farm Credit Administration to establish regulatory guidelines for determining the need to offer insurance through PCAs, IIAA may seek legislative remedy in testimony on the Farm Credit Act Amendments introduced in 1979.

IIAA POSITION: IIAA opposes any expansion of the pilot project through which a limited number of PCAs now offer property and casualty insurance. IIAA supports PCA rulemaking that details the procedure for determining a need for PCA insurance activities. IIAA supports further Congressional clarification of the kind of insurance PCAs are permitted to offer, and under what conditions.

Mr. JONES of Tennessee. The next witness is Vernon Wright, president of the Intermediate Credit Bank of New Orleans.

Vernon, we appreciate your coming to Memphis and you may either summarize or read your statement.

STATEMENT OF F. VERNON WRIGHT, PRESIDENT, FEDERAL INTERMEDIATE CREDIT BANK OF NEW ORLEANS, REPRESENTING PRODUCTION CREDIT ASSOCIATIONS OF THE FIFTH FARM CREDIT DISTRICT OF THE FARM CREDIT SYSTEM

Mr. WRIGHT. Mr. Chairman, it's a pleasure for me to be here to appear before you.

Before I start my testimony, I handed approximately 100 copies of letters, primarily from farmers in our district, that will support my testimony; and I respectfully request that these letters be entered in the record.

Mr. JONES of Tennessee. Without objection, they'll become a part of the record.

[The letters submitted are held in the subcommittee file.]

Mr. WRIGHT. My name is F. Vernon Wright. I am president of the Federal Intermediate Credit Bank of New Orleans. We furnish lending funds to and supervise 25 production credit associations in Louisiana, Mississippi, and Alabama. During 1979, our bank will lend more than one \$1 billion to production credit associations and other financial institutions which, in turn, loan these funds to farmers, ranchers, and producers and harvesters of aquatic products in the three-State area.

The Farm Credit Amendments Act of 1979 (H.R. 4782) is a bill which will broaden and update the Farm Credit Act of 1971. In a world which is changing so fast, it is necessary for the agricultural segment to keep pace. The changes which are proposed by this bill will help improve the income and well-being of the American farmers and ranchers in today's changing world, thereby enhancing the ability of farm credit organizations to accomplish objectives of the Congress as stated in the Farm Credit Act of 1971.

Most of today's changes cost money, and often require more tax dollars. But the provisions of the bill require no appropriated funds—no tax dollars. The farm credit system is owned by members-borrowers, and uses no Federal funding. Even the Farm Credit Administration's budget is met by system money rather than public funds.

Those of us who have the responsibility to manage and execute the policies of the system, as well as the board members who set the policies, have taken seriously the responsibility to achieve consensus on this legislation within the system. There has been much "give and take," but we have now agreed on the package which will enhance our ability to serve American farmers and ranchers. Because of the unity which was achieved by the system in formulating this legislation, we urge this subcommittee to use its authority and influence to prevent any amendments to the legislation. We urge passage of the legislation as it was introduced.

Although there are no provisions concerning insurance in the proposed legislation, we understand the suggestion has been made to take away from farm credit organizations their authority to provide insur-

ance services to farmer-members—a service which had its start in the early 1950's. This issue is extremely important to the farm credit system for many reasons; therefore, I would like to address the following remarks to farm credit member insurance programs:

One: The rapidly escalating cost of farm operating expenses, as well as capital goods, has greatly increased the risk in farming.

Two: PCA members are telling us they need and want more financial management assistance, a substantial part of which is managing controllable risks.

They do not want anyone making these decisions for them. They are asking for information, counsel and advice to consider in helping them make their own decisions.

Three: A significant part of any farm family's risk management program is that of properly managing the insurable risks. These insurable risks for which PCA can now offer insurance services include:

(a) *Insurance to cover the life of the principal owner/manager of the farm business.*—Thousands of farm widows across this Nation have been able to continue the farm business after their husband's death due to the PCA loan being paid in full or substantially reduced by credit life insurance coverage purchased from their PCA.

(b) *Credit disability insurance.*—Many farm families are able to continue the farm operation without incurring additional heavy debts today because their credit disability insurance, purchased through their PCA, pays for replacement during the disability of the principal operator.

c. *Property and casualty insurance.*—The loss of a \$50,000 residence, a \$40,000 tractor, or a \$70,000 poultry house can be disastrous. In fact, it can put a farmer out of business if he or she is uninsured. It can severely weaken their financial position if such loss occurs without adequate insurance. We find that many of the farmers in our district are either uninsured or underinsured. I am attaching a few examples of actual cases in the fifth farm credit district which clearly illustrate this point. Many more examples can be furnished if the subcommittee would like to have them. Much of this is the result of rapidly escalating values of farm assets and failure to update coverage in a timely manner. PCA's can offer property and casualty insurance coverage which is tailored to the needs of the individual farmer, just as our loans are tailored to the individual farmer. PCA employees effectively interrelate their knowledge of farming, the individual farmer's business operations, their financial analysis expertise, and their knowledge of property and casualty insurance to advise the farmer on his risk exposure and how he can cover insurable risks.

d. Crop hail insurance is another service of long standing. Loss of an uninsured crop due to hail loss could very well bankrupt a farmer. PCA crop hail insurance helps to absorb some of the financial loss, thereby enhancing the farmer's chances of growing another crop because that insurable risk was covered.

Four: It is important to emphasize that PCA employees receive no commission from the sale of any type of insurance. Nor is their compensation based on sale of insurance. The Farm Credit Administration has issued directives which strictly prohibit relating employee compensation of any nature to the sale of insurance. This is strictly adhered to by all PCA's and is strenuously supervised by the FICB's.

Five: I should additionally emphasize that purchase of any type of insurance from a farm credit association is strictly optional with the member. Even if insurance coverage is required as a condition of the loan, the member has the option of purchasing that insurance from the source of his choice.

During the past two decades, I have been responsible for supervision of PCA's—approximately 10 years as deputy governor of Production Credit Services at the Farm Credit Administration in Washington, D.C., and during the most recent 10 years as president of the Federal Intermediate Credit Bank of New Orleans where I am responsible for the supervision of 25 PCA's located in three States. In those supervisory capacities, I have handled many PCA member complaints concerning loan rejections, and foreclosures in connection with the lending operation. However, I have never—not even one time—received a complaint by a PCA member or applicant alleging coercion or pressure in connection with the PCA insurance programs. It appears that concern about coercion is being expressed by the agents or organizations who sell insurance—not by the farmer-members of the system.

The only beneficiary of this competitive source of insurance services is the consumer; in this case, the farmer, because he has one more optional source whose single business is that of serving farmers. Opposition to these services represents opposition to competition and is contrary to the free enterprise system.

The Congress has previously authorized Farm Credit associations to provide these services on an optional basis, to the member-owners of the Farm Credit System. It would not be in the public interest to remove these existing authorities. For all of the reasons cited above, I urge you to preserve authority for farm credit organizations to serve the insurance needs of members in order that they may continue to serve the best interests of the American farmer.

Six: It is my understanding that someone outside the farm credit system has stated this legislation will enable the system to establish its own insurance company, and further, has stated the system already has plans on the drawing board for an insurance company. Neither statement is correct. The legislation does not deal with insurance or an insurance company, and there is no system consideration of establishing an insurance company, much less plans for one. Perhaps this misconception of the facts is creating unwarranted concern.

When the Congress created the farm credit system, it established a framework within which farmers could join in a cooperative effort to help themselves and help each other—farmers doing business with farmers. Every dollar for operating and capitalizing the farm credit system is paid by the farmers who own and use it. It is indeed a unique system—one where the customer and the owner are the same person. The farm credit system has not put any of its competitors out of business over the years; rather, it has been a competitive force which has served the best interests of the entire farm community. In fact, our competitors are stronger and better today because they had to compete. The cooperative concept by which farmers can own and use their own businesses for purchasing loan funds, marketing products, purchasing insurance coverage, and purchasing farm inputs, is an outstanding example of the success which can be achieved in the free

enterprise system. Mr. Chairman, we thank you and the other Members of Congress who have made this possible.

Thank you for the privilege of presenting testimony concerning the Farm Credit Act Amendments of 1979 and related issues. I urge you to report H.R. 4782 out of subcommittee as it was introduced, with no changes or amendments, and to use your full authority and influence to preserve the current authority of farm credit organizations to provide needed financially related services to farmer-members on an operational basis.

PROPERTY INSURANCE PROGRAM, FIFTH DISTRICT: SELECTED ACTUAL CASES—MEMBERS SAVE MONEY AT PCA

What member had before PCA	What member has through PCA	Bottom line
Farm policy: Buildings..... \$3,000 Cost..... 88	Farm policy: Buildings..... \$3,000 Cost..... 48	Member saved \$40.
Home owners: Dwelling..... 20,000 Dwelling contents..... 10,000 Living expense..... 1,000	Farm package: Dwelling..... 40,000 Dwelling contents..... 20,000 Living expense..... 5,000 Farm storage..... 28,000 Machinery..... 10,650	More adequate coverage. Saved \$13. (Note: This member's dwelling burned to the ground 3 mos. after switching his insurance to PCA. He made the statement that had he not switched to PCA and increased coverage, he would not be farming today.) Covered milking parlor and contents. Provided liability coverage. Saved \$150.
Builders risk: Dwelling.... 45,000	Farm package: Dwelling..... 50,000 Dwelling contents..... 25,000 Milking parlor..... 30,000 Parlor content..... 10,000 Liability..... 300,000	

PROPERTY INSURANCE PROGRAM, FIFTH DISTRICT: SELECTED ACTUAL CASES—MEMBERS COVER THEIR ASSETS WITH INSURANCE THROUGH PCA

What member had before PCA	What member has through PCA	Bottom line
None.....	Farm package: Dwelling..... \$90,000	Provided insurance where there was none.
None.....	Basic policy: Tractor..... 24,000	Financed tractor with PCA and member found it convenient to insure through PCA.
None.....	Farm package: Building..... 60,000 Equipment..... 20,000	Provided insurance where there was none. Followup to write coverage on other property when it expires.

PROPERTY INSURANCE PROGRAM, FIFTH DISTRICT: SELECTED ACTUAL CASES—MEMBERS GET MORE PROFESSIONAL SERVICE AT PCA

What member had before PCA	What member has through PCA	Bottom line
Basic policy: Dwelling..... \$35,000 2 additional buildings..... 18,500 Cost..... 1,864	Farm package: Dwelling..... \$60,000 4 additional buildings..... 64,000 Liability..... 300,000 Equipment..... 99,500 Cost..... 2,013	Much better coverage for slightly more premium. Superior policy.
Home owners: Dwelling..... 0 2 poultry houses..... 54,000 Liability..... 25,000	Farm package: Dwelling..... 15,000 2 poultry houses..... 54,000 Liability..... 300,000	Member has policy designed for farmers. Covered dwelling. Increased liability coverage (premium increased \$115).
Farm owners: Dwelling (3,000 sq. ft). (Coverage on buildings and machinery). 20,000	Farm package: Dwelling (Coverage on buildings and machinery). 40,000	More adequate dwelling protection. Capable appraisal on buildings and equipment. Updated insurance program. (It had not been updated in 10 yrs.) (Premium increased \$235).
Farm owners: 3 broiler houses 25,000	Farm package: 5 broiler houses. 133,000	All broiler houses covered. Broiler houses adequately protected. (Premium increased \$880).

Mr. JONES of Tennessee. The next witnesses are four together. I've been asked to announce that they will all come up. I don't know which one is going to testify.

I'm calling Mr. Tom Gist, the chairman of the Federal Credit Bank of Marianna, Ark.; Mr. Jack Gibson of Arkansas; Mr. John D. Naill of the Federal Credit Bank of Brinkley, Ark.; Mr. Armstead Feland of North Little Rock; Mr. J. N. Lawhon of Cache River Production Credit Association of McCrory.

Mr. Naill, you may proceed. Do you have copies of your testimony for the record?

Mr. NAILL. Yes, sir, I do.

Mr. JONES of Tennessee. Before you begin, my counterpart, Congressman Ed Madigan of the State of Illinois, has arrived.

Ed is a member of the full Agriculture Committee and is ranking minority member on the Conservation and Credit Subcommittee, and has been of great assistance to the committee in writing legislation.

STATEMENT OF JOHN NAILL, FARMER; MEMBER, FEDERAL FARM CREDIT BOARD, BRINKLEY, ARK.

Mr. NAILL. Thank you, Mr. Chairman. First of all, let me say it's a real honor and pleasure to be able to speak before your committee this morning.

I will identify myself further by saying I'm John Naill, Jr., from Brinkley, Ark. This is a town in the east central part of the State. It's an agricultural community that's surrounded by rice, cotton, and soybean farms. I'm a borrower from the Lonoke Federal Land Bank Association, the Cache River Production Credit Association, and I sell most of my farm products through cooperatives that are financed by the banks for cooperatives.

I'm the third generation of farmers that have had farm credit loans on this farm, and Mr. Chairman, if it will help to get your attention any, I'll say that the first thing that they did when they came over from Tennessee was to look for the Federal land bank office over there. I also serve as a member of the Federal Farm Credit Board and initially, I would ask your support of this entire package of amendments, H.R. 4782.

As a member of the Federal Board, it was a real pleasure to see the systemwide development of this package of amendments and to see the systemwide support of it as it was finally drawn up.

Today I appear before you as an east Arkansas farmer concerned with the fact that usury, the lack of usury clarification, can limit the service of the farm credit system to me and to my neighbors in east Arkansas.

It's common knowledge that the charge was given to the farm credit system many years ago, the initial part of this system, to provide continuous uninterrupted credit to farmers throughout this country, no matter where they were, no matter what the condition. This was to provide credit to all farmers, and over the years the Congress and Senate have from time to time improved and expanded this system by addition of the intermediate credit banks back in the 1920's, by the addition of the PCA's later on, by the introduction of

the co-op banks, and by the Farm Credit Act of 1971. All of these were opportunities to expand and improve the service of farmers out in the community. Also, it's common knowledge that there's one source of funds for this system, and that is the investing public.

With this one charge of making loans to farmers and this one source of funds for the system, it's not difficult for the farmer out there at the local level, and particularly in eastern Arkansas, to understand the fact that you can't loan money for less than you are borrowing for and stay in business long. You just can't continue to operate at a loss and that's what this usury limitation, or the lack of clarification of the usury situation is placing on the system.

This is not just an Arkansas problem. It's a nationwide problem, because over the years this system has expanded to serve hundreds of thousands of farmers. It loans millions and really billions of dollars, and it's involved in entwining loss-sharing agreements.

As a result of this largeness, the best counsel that this system has advises these local loan officers and these local associations not to make loans merely on an assumption of the fact that this system is exempt from the usury laws.

Arkansas is an example, and I'd like to speak to that because I am from the State of Arkansas. There are many different State laws involving usury, many different limitations and many different penalties for violations of the usury laws.

Arkansas has a limitation of 10 percent and a penalty of the forfeiture of the principal and interest. As you can see, when you're involved in billions of dollars, you just can't make loans faced with the possibility of forfeiting the principal. Over the years the farmers in this system paid off their individual loans. They retired the initial Federal funds that were put into it, the seed money.

Over the years they have built up a strong capital position in this farm credit system of their own, but this was built up with the understanding that the farmers through their hard work and their industriousness, built up this reserve to meet unanticipated and unavoidable losses, financial losses by themselves and by their neighbors. It was not ever the intention to build this up to be depleted by lack of clarification in the law that put us into business to begin with.

Also, the charge to provide continuous credit to farmers and ranchers and cooperatives across this country was not given with the idea that this charge should be implemented by any schemes, devices or under the cloud of violating State laws, nor to the accompaniment of year-to-year legal gymnastics to try to continue to make these loans.

Mr. Chairman, this item of clarification of usury, like the other 27 items in this package seeks to improve an already proven ongoing good system. It seeks no new broad authorities. It seeks to create no new groups of borrowers and it seeks no tax money. It just seeks to improve and expand the service of farmers and continuous service to farmers. But until it is clarified, it will continue to burden by lack of assurance that credit will be available to the farmers.

I urge your support of this entire package that does include the clarification of the usury issue.

Thank you very much for the opportunity to speak to you.

Mr. JONES of Tennessee. Thank you very much, Mr. Naill. We'll certainly consider the recommendations that you have made here.
[The prepared statement of Mr. Naill follows:]

PREPARED STATEMENT OF JOHN NAILL

Mr. Chairman and members of the Subcommittee, I am John Naill, a member of the Federal Farm Credit Board and former member of the Board of Directors of the Federal Land Bank Association of Lonoke, Arkansas. I am an Arkansas farmer residing on farm 15 miles outside of Brinkley. I am a member and borrower from the Cache River PCA. This is a predominantly agricultural community with cotton, soybeans, and rice as the chief agricultural products. I appreciate this opportunity to present some views on the Farm Credit Act Amendments of 1979, House Bill 4782.

These Amendments offer several constructive changes to the Farm Credit Act of 1971, but I wish to limit my remarks to one item in which I have particular interest, the clarification of the Farm Credit System's exemption from state usury laws as specified in Section 403 and related Sections 104, 204, 210, and 307 of the bill. The Farm Credit Administration has consistently taken the position that system institutions are exempt from state usury laws. This opinion is based on the legislative history behind the Farm Credit Act of 1971 and by legislation anteceding it. Unfortunately, however, the Farm Credit Act of 1971 does not specifically state this exemption. A clarification is essential, however, to insure that state usury laws neither restrict the availability of credit disseminated by Farm Credit institutions nor have an adverse impact on the financial stability of those institutions.

These objectives are important to me both as a farmer and as a Federal Board member. As a farmer, I need a dependable source of credit, and as a Federal Board member, I have a responsibility to see that the Farm Credit System fulfills its Congressional mandate to provide that credit.

Section 1.1 of the Farm Credit Act of 1971 delineates the important relationship of agricultural credit to the agricultural community and the nation. This Section states:

"It is declared to be the policy of Congress, recognizing that a prosperous, productive agriculture is essential to a free nation and recognizing the growing need for credit in rural areas, that the farmer owned cooperative Farm Credit System be designed to accomplish the objective of improving the income and well-being of American farmers and ranchers by furnishing sound, adequate and constructive credit and closely related services to them, their cooperatives, and to selected farm related business necessary for efficient farm operations."

Having received this mandate from Congress, Farm Credit institutions have performed admirably. The Farm Credit System currently provides approximately \$53 billion of agricultural credit, about one-third of the nation's total amount. This success story results from the Congressional plan which implemented a System which has as its sole purpose the financing of agriculture.

Although originally government sponsored, Farm Credit institutions are expected to operate on a self-sustaining basis. The methods available for funding their operations are extremely limited. The primary source of lending funds for these institutions is the sale of their securities to the investing public at prevailing market rates. The limited nature of their business and funding would make them extremely vulnerable in periods of high interest costs if state usury laws prohibited them from passing on their costs to borrowers. Their only option would be to curtail lending or allow their financial base to become eroded. The first alternative in the short run would be disastrous to farmers because so many of their credit needs are not deferrable, and the second would be equally undesirable in the long run because the eroded financial base would limit the ability of these institutions to service the ever-increasing future credit needs of farmers as they have done so successfully in the past.

Although there are many state usury laws that could theoretically affect our System, a specific example of the adverse impact of state usury laws on Farm Credit institutions can be currently found in the Sixth Farm Credit District which includes the state of Arkansas. In Arkansas a lender found to be in violation of the state usury limitation loses the security for the loan, the interest for the loan, and the principal. The debt is voided. This extremely harsh penalty

has caused the Federal Land Bank of St. Louis and the production credit associations in Arkansas to be extremely reluctant to rely on a system usury exemption which is not explicitly stated in the Act. Because of the risk, these institutions have therefore decided not to exceed the state limit even though they believe they are exempt. The immediate result of this decision is that 10 of the 14 production credit association in Arkansas are lending at a loss. Obviously this cannot continue indefinitely, and if money costs do not improve, these associations will have to either curtail or cease their lending, either of which would be to the detriment of Arkansas farmers who get 50 percent of their operating credit from PCA.

The Federal Board appreciates the reluctance of some System institutions to rely upon an exemption not stated in the clearest terms when local laws such as in Arkansas are so penal in nature that they might shake the very financial foundations of the lending organization. It is in response to the fears of these System entities that the Farm Credit Administration and the Federal Farm Credit Board has supported the introduction of the amendments clarifying the System's usury exemption. Without a clear Congressional expression of the exemption, System institutions may be subject to litigation challenging interest rates precipitated by a high-cost money market with such litigation bringing a possible unwelcome decision.

I believe that such an exemption is absolutely essential to the American farmer and ultimately to the general public. System institutions may be the predominant source of agricultural credit during periods of high money costs. The magnitude of the credit extended by this System makes it extremely unlikely that other sources would be able or willing to supplement the supply of credit if Farm Credit institutions were forced to retrench lending during such periods. In fact, because of the cooperative nature of the system, its interest rates are often lower than those of other credit sources whose rates would approach the usury rate sooner resulting in a slowdown of their lending activities. Such periodic retrenchment, however, would eventually be necessary by System institutions if state usury laws prevented them from passing on the high costs to their borrowers. The curtailment in the availability of agricultural credit would have an adverse effect on farmer productivity thereby creating inflationary pressures on the cost of food and fiber to the consuming public, in addition to thwarting the purpose of the Farm Credit System.

To summarize, I believe that in order for this System, with its limited lending, operating, and funding authorities, to be able to comply with the Congressional mandate to be a dependable source of agricultural credit, it must be clearly exempt from state usury laws. The System must not be in a position of circumventing or violating that law, but it also must not be forced to curtail lending or deplete its financial reserves which were built up through the years due to sound and constructive lending operations. I believe Congress always intended for this System to be exempt and surely an oversight in drafting the 1971 Act should not be allowed to undermine the financial foundation of this credit System or its ability to provide the credit so vitally needed by the American farmer.

I caution that the need to clarify the System's usury exemption is not just a local problem involving one state, but rather it is a national problem. System loss sharing agreements combine all entities of the System into a nexus, and an adverse decision in any one area can have repercussions nationally that could place the whole System in a precarious position. I, therefore, urge that Congress enact these amendments and thereby remove any uncertainty about the Congressional intent, enabling the System to continue its historical responsibility of being a dependable and available source of credit to American agriculture, in complete fulfillment with the spirit and purpose underlying the establishment of the Farm Credit System.

Although I have stressed the importance of one facet of the legislation, I wish to reiterate that I support the total package of amendments because they will enable the Farm Credit System to be more effective in serving the credit needs of American agriculture. These amendments do not ask for broad authority, nor do they ask to serve large new groups of borrowers. They do not ask for any taxpayer's funds. They merely represent an attempt to refine an already proven System, one of which I, as a farmer and Federal Board member, am proud.

I am grateful for the opportunity to have expressed these views before this committee.

Mr. JONES of Tennessee. Welcome, Mr. Gibson, we're delighted that you could come.

STATEMENT OF JACK GIBSON, CHAIRMAN OF THE BOARD, FEDERAL LAND BANK ASSOCIATION OF SOUTHEAST ARKANSAS, DERMOTT, ARK.

Mr. GIBSON. Thank you, Mr. Chairman, Mr. Madigan. I appreciate the opportunity to express my views concerning this legislation to your body today.

I am Jack Gibson from Boydell, Ark. I am a farmer and have been all my days. I'm chairman of the board of the local Federal Land Bank Association. I was a director of the PC there for many years, and now am a country banker. I am a borrower from both PCA's and the Federal land bank, and so my views today here are sort of on a dual purpose.

I think everyone is aware of the role farm credit organizations play on the local rural scene to finance agriculture. Today the farmer is needing more and more credit, as we're in a very escalating need for money. We're in a cost-price squeeze, and who knows what's going to happen in this whirligig world we're in in the next few years.

The thing that we're concerned mostly is availability of money. We need it when we want it, when we need it to keep this agricultural economy going.

We're in a rather difficult period now, as all of you are aware. Mr. Naill has spoken and I will not elaborate on the usury question, but it has greatly curtailed the availability of money in the State of Arkansas, especially on the local scene.

It is the decided opinion among the people that borrow money and the people that lend money that we do not love the high cost of money today, but we'd rather pay the high cost than not get it when we need it.

I would greatly endorse and hope that you gentlemen would consider this bill for that one factor, that it provides the most stable source of credit that we have on the ground roots of financial opportunities in the rural section.

I'm going to be very brief. I'd like to touch on two or three other things.

I can envision the processing and marketing new additions to this bill as being very good to the farmer. As you know, for years the farmer has been the victim of the marketplace. In order to survive, he's got to get more expertise in marketing. This would be a facet that would help him greatly.

I can see another problem. Today in rural Arkansas we have a great problem being able to keep young people down on the farm. Most young people are not able, cannot get the financing that they need to stay in business. With the removal of the 85 percent guaranteed loan of the Federal land banks, with the cooperation of Government agencies, this might become the reality that we've been looking for and waiting to happen for a long time.

Last, and of great importance to me in the banking business is that most country banks are so small, capitalized so small, that their loan limit is not nearly adequate today to finance a farmer. Therefore, we have to go into the money market for what we call overlines. We now are going mostly to the big city banks.

This is a big and fickle source of funds for us. When money is plentiful, they're hugging your neck every day. You can't answer the telephone without it being them.

All of a sudden when we have the usury, and this credit, you can't even get them on the phone. They're on the golf course or gone to New York or somewhere.

So that puts us in a very precarious situation. It's not an enjoyable position.

Therefore, with this new addition to this bill where a small commercial agricultural bank can participate and let the PCA's buy their overlines of credit, to me, alleviates this problem and makes a great more big source of money for the agricultural producer, which is what we're all working for.

On the local level, our small community banks work real good with the Farm Credit System. We're an admirer of it. It has a proven record. We'd like to be able to participate with it more.

Gentlemen, I wanted to be brief, but I appreciate your indulgence with me. Those are my views and I heartily endorse all the concepts of this bill. Thank you.

Mr. JONES of Tennessee. Thank you very much, Mr. Gibson. Without objection, your full statement will become a part of the record.

[The statement follows:]

PREPARED STATEMENT OF JACK GIBSON

Mr. Chairman and members of the Subcommittee, I am Jack Gibson, a farmer and rural banker. I am also chairman of the Board of the Federal Land Bank Association of Southeast Arkansas, in Dermott, Arkansas, and a member and former director of the Delta Production Credit Association. I appreciate this opportunity to present my views concerning H.R. 4782, the Farm Credit Act Amendments of 1979.

In my capacity as director of a Federal Land Bank Association and a former director of a production credit association, I have become aware of some of the facets of the Farm Credit Act of 1971 which inhibit Farm Credit institutions from providing as complete a service to their members as I believe they should. When I step back from my role as director and view the Farm Credit System as a member and user, I sometimes ask the question: What do I expect out of this cooperative credit system? I believe the answer is simple. I want funds to be available for my credit needs and I want a say in the affairs of my association. While the Farm Credit Act of 1971 made some great strides in meeting these desires, I believe there remain some areas for improvement. I wanted to testify in behalf of this legislative package because I believe this package will help promote credit availability and borrower control of the System.

I would first like to discuss those parts of the legislation which affect credit availability. This, I believe, is of paramount importance to the users of the Farm Credit System. In today's economy, neither land nor equipment can be purchased nor crops planted and harvested without the use of credit. Credit is one of the key tools that has enabled American agriculture to become the most productive in the world. The economic trend in agriculture today dictates that more and more capital will be necessary to do the job and, therefore, we have to be certain that the Farm Credit System remains a dependable source of credit for both good times and bad times.

While we may not now be in one of the bad times, we are at least in a difficult period. Interest rates are at historically high levels and seem to be continuing to go higher. There is no question but that this creates a hardship on farmers whose operations mandate the use of credit. But, I believe most farmers would say that although the high cost of credit is rough, the lack of it is rougher.

In the present economy, state usury ceilings, such as that in Arkansas, have greatly restricted the available sources of credit. While this has affected all

forms of economic activity requiring credit, it is particularly hard on the agricultural segment of the community because credit is their life's blood. They cannot defer their spending until times get better, such as a consumer might in spending for a new automobile. Fortunately, the Federal Land Bank system and production credit associations have remained dependable sources of credit even during periods of high money cost.

As cooperatives, the Federal Land Bank system and production credit associations have charged only that interest necessary to cover the cost of the funds they loan, the cost of operation, provide for necessary reserves and generate such earnings necessary to maintain a strong financial base. This lending philosophy along with the fact that agricultural credit is the only business of these cooperatives meant that credit was usually available to deserving borrowers. The System's exemption from state usury ceilings meant that the Land Banks and production credit associations could continue to lend even though their cost of money might be relatively high. However, in some states such as Arkansas where the usury laws are extremely punitive in nature in that they result in the loss of the security, the interest, and the principal, Farm Credit institutions have become exceedingly reluctant to loan in excess of that state's ceiling. Although the Farm Credit System has always considered its loans exempt from state usury limits, the 1911 Act does not specifically state this fact.

The major determinate of the cost of money to Federal Land Banks and production credit associations is the cost of the funds obtained by the sale of bonds to the investing public. During periods of high money costs, these bond rates can rise substantially resulting in interest rates to borrowers which exceed state usury limitations. Obviously during these periods, if these Farm Credit institutions are subject to state usury limitations or if there is some doubt about their exemption, Federal Land Banks and production credit associations will have to curtail their lending operations to prevent the weakening of their financial position by charging an inadequate interest rate. This would be disastrous to the farmers and to the American public. I am sure everyone on the Subcommittee is aware that American agriculture has to produce at full throttle in order to provide sufficient exports to defray some of our balance of payments deficits and also to keep prices reasonable at the consumer level. Anything that would tend to curtail the productiveness of the American farmer, such as the reduction in his ability to obtain credit, will give impetus to the inflationary pressures on prices. It is my belief that it is not only in the interest of the credit organizations and the American farmer that the usury exemption be clarified but, also, that such clarifications are in the public interest.

Another important item of the legislation which affects the availability of credit is that part which would broaden eligibility for financing by Federal Land Banks and production credit associations to include processing and marketing activities directly related to a farmer's farm, ranch, or aquatic operations and those of other bona fide farmers, ranchers, or aquatic producers.

A key consideration in the processing and marketing activities of farmers is that sufficient financing be available to erect efficient processing and marketing facilities. Often the most efficient facilities would require an input of farm products in excess of that which a particular farmer can produce. But the way the law is now, once the borrower's marketing or processing facility has grown to the point where he's handling more volume from his neighbors than from his own farm, the operation is then ineligible for PCA or FLB financing. This legislation would let District Farm Credit Boards (with FCA approval) expand the limits on financing these facilities through Federal Land Banks and production credit associations even though that farmer-borrower is also providing some marketing and processing for other farmers.

Here again, I believe that the general public would benefit from such an expansion of authority. Expanding the scope of Federal Land Bank's and production credit association's service in financing processing and marketing activities should result in farmers acquiring better processing and marketing facilities which in turn, would allow them to operate more efficiently. Any improved productivity should improve agricultural income but without the inflationary pressure on price.

As a rural banker, I support the amendment which would authorize production credit associations to issue participation certificates to commercial banks and other lenders. This change would strengthen the relationship between the

Federal Land Bank and production credit association with their local rural banks. As chief executive officer of a country bank, I can certainly verify this is very important. The financing of farm operations today demands such a large output of capital that most rural banks are not large enough to singly satisfy all the needs of the farm community. At present, they have to sell overlines of credit to the larger city banks. This is a very fickle source of money as their positions fluctuate with the availability of funds. When there is a surplus of money, they are soliciting your farm loans, but if the money supply becomes tight, they are the first to abandon you. This is not a very fruitful relationship for an organization engaged in financing farm needs. This bill would make it easier for rural banks to participate loans with their local production credit associations. Not only would that create a more stable money supply for agricultural needs in the various rural communities, it lets us participate with folks who are specialized in farm lending and knowledgeable of the local agriculture.

Another item of the legislation which would increase the availability of credit is that amendment which would allow Federal Land Banks to make loans in excess of 85 percent of the appraised value of the real estate security when the loan is guaranteed by a federal, state, or other governmental agency. This would enable Federal Land Banks to continue to make credit available to young or new farmers. Presently, Federal Land Banks meet the credit needs of young and new farmers with a coordinated lending program with Farmers Home Administration in which the Federal Land Bank furnishes a portion of the credit need and Farmers Home Administration, under their direct lending authority, furnishes the remainder of the credit need. But Farmers Home Administration is beginning to place more emphasis on its guaranteed loan program which requires the private lender to finance the full amount of the credit need. Unfortunately, the financing need of the new and young farmer, who is generally in a low equity position, generally exceeds the statutory lending limit of the Federal Land Banks.

Young and new farmers, because of their low equity position, need careful analysis by a creditor who understands the problems such farmers are confronted with before they become firmly established. The outstanding record of Federal Land Banks in providing productive credit to agriculture through the years is shown by the ever-increasing use of that cooperative credit system by the American farmer. I believe that it is even more important for the new farmer to have access to this credit than the more established farmer.

In my opinion, the 85 percent lending limitation is not necessary when there is a governmental loan guarantee. I know of no other lending organization that has such a limitation when loaning under a governmental guarantee. The governmental guarantee provides much of the same protection against loss that the 85 percent limitation does. In fact, under the governmental guarantee the extent of possible loss is known while under the judgmental system of appraisal and credit analysis practiced in the Federal Land Bank system, the extent of possible loss could be greater depending on the skill of the loan analyst.

In view of these considerations, I strongly recommend that the 85 percent limit be removed when Federal Land Banks make guaranteed loans so that the new and young farmer will have access to this source of credit.

The preceding items I have discussed dealt mostly with the availability of funds. I would now like to discuss an item of the legislation which would allow the members of the cooperative greater say in the affairs of their organization. This item in the legislative package would allow Federal Land Banks and Federal Land Bank Association to pay patronage refunds or differential dividends to their members. I believe that this is important because it would allow greater flexibility in the operations of these organizations.

A basic principle in the cooperative movement is that surplus earnings of the cooperative should be distributed according to the members' use of the services of that cooperative. Because of this, cooperatives make a distinction between returns on invested capital as contrasted with returns based on a volume of business done with the cooperative. This amendment would allow Federal Land Banks and Federal Land Bank Associations to make this distinction and thereby pay out surplus earnings back to members according to the interest which they paid, thereby proportionally reducing the cost of that member's farming operation. This I believe is desirable from the farmer's standpoint and also by the public at large.

In conclusion, I wish to reiterate that I support the full legislative package but I have merely commented on these few legislative items. I have a keen interest in

the continued presence of the Farm Credit institutions as a dependable source of credit and to insure this, it is necessary that Congress remove any cloud from the Federal Land Banks and production credit associations usury exemption. I also believe it is important that these organizations should be allowed to finance the new and young farmer and also finance the production and marketing facilities of farmers. I also support the patronage refund section and differential dividend section because it will allow greater member control of their cooperative lending institution. The amendment which authorizes production credit associations to issue participation certificates to commercial banks and other lenders is also very important in improving the availability of farm credit.

I am grateful for this opportunity to express these views before this committee. I would be pleased to respond to any questions.

Mr. JONES of Tennessee. The next witness is Mr. Feland.

STATEMENT OF ARMSTEAD M. FELAND III, CABOT, ARK., REPRESENTING SOUTHERN FARMERS ASSOCIATION AND FARM CREDIT BANKS OF ST. LOUIS

Mr. FELAND. Mr. Chairman, Mr. Madigan, I'm Armstead Feland. I'm a very poor farmer of sorts. I do have a small cattle operation, but I work for a farmers cooperative, Southern Farmers Association, headquartered in North Little Rock, and I am finishing my 11th year serving on the Sixth District Farm Credit Board with headquarters in St. Louis.

I am well aware, as has been stated, that these amendments that have been entered in the form of House bill 4782 have been battled within the system extensively, and there's been a lot of give and take within the system because there are petty rivalries here and there; but I can certainly say that we support it as they are entered and would hope that they can stay intact, because we believe it is in the best interests of the farmers they serve. You're going to be well aware that you're hearing a good bit from these folks in Arkansas about usury.

I want to speak primarily to section 403 and related sections, and I would point out to you that the uniqueness of this, Mr. Nail has indicated, that we have a very severe penalty.

While there are 10 other States, at least, that have usury laws that affect agriculture, but in Arkansas this is a constitutional provision. This is not a provision that's subject to legislative action. It's been given to the people on numerous occasions, and so far the consumers have never seen it proper to want to change the usury law. They seem to think it's in their best advantage. If it were left to the borrowers of the farm credit system for referendum, it would be a bit simpler; but that's not the way it's introduced in the State, and so we have to suffer with the outcome of it.

You are well aware that in 1967 the Congress did amend the then-existing farm credit laws to provide for preemption so that there would not be any conflict with State usury laws. This is really all we're asking at this time is a clarification that would continue this preemption. It is supposed in other States that it is still valid.

As has been indicated, the best counsel available to us in Arkansas has said repeatedly that they do not think it wise to test it in the courts. It would obviously have to go all the way through the courts. It would be a long process and that you are also well aware that when a loan gets in difficulty, the attorneys reach for whatever is at hand.

Our constitutional provision is so strong that there's no doubt that if we exceed the 10-percent limitation, we would have to defend against the usury law. So we feel bound by it. It is considerable difficulty. It's one that can be easily corrected by reinstating the preemption that was in the prior farm credit legislation prior to the 1971 act.

The sixth district has over \$1 billion outstanding in Arkansas. That's what's at stake and that's why we're so concerned when we take chances with that law.

The most recent cost on farm credit issues, the 9-month issue sold for 11.40; the 6-month issue sold for 11.50.

It's perfectly obvious this system is to be financed with the sale of bonds, the using of public funds, a reasonable cost added to it, and then pass it on to the user, the cooperative, or the farmer.

The current cost of the PCA's in Arkansas from the Federal intermediate credit bank is 10.29 percent. There's no way you can add anything to 10.29 and lend at 10 and do very well.

They are steadily losing money. The bank for cooperatives lends to the organization I work for. We have a \$23 million loan approved at the St. Louis bank for cooperatives. As a borrower, we don't see that it's right at all for the bank to pay more for the money than it lends because of this quirk in the law. We think it's an ill-advised situation and one that could be quite harmful to our credit source. It's obvious that each time we have a cycle, and money costs and rates go a little bit higher and last a little longer.

This one is doing great harm to our lending institutions in the district. Again I realize it's a bit odd for one State to plead so desperately for something in national legislation, but we think it's rather unique.

All we're asking is that the preemption be put back in the law that was in it before the 1971 act so there can be no doubt and so we don't have to be at risk with our funds when we do go out lending.

There are two other things I would speak to very briefly. One of them is co-op eligibility.

This is not a big problem in Arkansas and I don't think things would change too much. It has been a source of concern for the bank for cooperatives in St. Louis.

Since I have served on the board, they have had applications from generating and transmission, electric cooperatives that would like to borrow construction money with the assurance that they had their own REA or co-op bank financing when construction was completed. They could not meet the present eligibility requirements.

We recently have had an application in Arkansas from a rural electric and we're now challenging them to be sure that they could meet the eligibility requirement.

There is a territorial law in Arkansas that says in effect that a rural electric has to serve all users in its assigned territory, and that a privately owned utility serves all in its territory.

The State is more or less divided up. This means that as we have more and more people moving to suburban areas and moving out around the small towns, more and more nonfarmers are served by the rural electrics. It does pose a problem for those in terms of meeting the present qualification.

I don't see it having any application at all to purchasing and marketing cooperatives, but it does have an application in our district to the rural electrics.

The other item that I would now like to speak to briefly is the question of the export financing aspects of these amendments.

As a manager of a borrowing cooperative from the St. Louis bank, I can tell you that more important than money has been the counsel and assistance to the board and management through the years.

Our organization would not have survived back in the 1950's had it not been for the literal handholding and constant assistance they received from the St. Louis Bank for Cooperatives.

If these banks are given this authority to work with the total financing needs of the cooperatives, frankly, they can prevent disaster in many cases that otherwise might happen.

Now, it's maybe not the role that's assumed by Congress when they established the bank of cooperatives, but I'm telling you as a borrower and a board member that I have seen quite a few farmer cooperatives saved by the wise counsel of the bank of cooperatives.

It's very difficult to exercise that same degree of counsel and supervision with split lines of credit; and, also, if we can center in the bank for Cooperatives systems the development and the qualification to assist in this role, many small cooperatives that would not otherwise have access to the expertise will have access to it through their bank for cooperatives and can be involved in exports they could not otherwise be.

So I don't think there's any doubt that it is a unique need. I don't see it as involving the bank is much different except following its loans wherever they need to go and assisting the borrowing cooperatives and being sure that what they do is done on a sound basis for the best interest of the borrowers and the mistakes aren't made that might otherwise be made.

I thank you, gentlemen.

MR. JONES of Tennessee. Thank you very much, Mr. Feland. We do appreciate your time and your statement. I assure you that the committee will give it serious consideration.

[The prepared statement of Mr. Feland, with attachments, follows:]

PREPARED STATEMENT OF ARMSTEAD M. FELAND III, REPRESENTING SOUTHERN FARMERS ASSOCIATION AND FARM CREDIT BANKS OF ST. LOUIS

Mr. Chairman and members of the Subcommittee, I am Armstead M. Feland III, of Cabot, Arkansas, Executive Vice President and General Manager of Southern Farmers Association of North Little Rock, Arkansas. I am also a member of the board of directors of the Farm Credit Banks of St. Louis which serve the three-state district of Arkansas, Missouri, and Illinois. As part of the \$50 billion Farm Credit System we provide over one-third of the total agricultural credit in the territory we serve and have been the leading lender for many years. I appreciate this opportunity to present the views of the Southern Farmers Association and to be one of the members of the Farm Credit Board of St. Louis to speak on its behalf and, thus, on behalf of The Federal Land Bank of St. Louis, the Federal Intermediate Credit Bank of St. Louis, and the St. Louis Bank for Cooperatives. In so doing, I hope to be speaking on behalf of farmers, who are the sole reason for the existence of the Farm Credit System.

First, I want to state in the most emphatic way that Southern Farmers Association and the sixth (St. Louis) Farm Credit District fully support all of the proposed amendments to the Farm Credit Act of 1971 as written. I will, however, address most definitively those proposals (or sections, if you will) with

which I am or have been most directly involved or otherwise in a position to aid this Committee in its deliberations.

Interest rate clarification

The thrust of Sections 403 and related sections of H.R. 4782 is to remove any possible doubt about the fact the loans made under the Farm Credit Act of 1971 are not subject to any limitations imposed by states on the rate of interest which may be charged borrower/members by Banks for Cooperatives, production credit associations, and Federal Land Banks through the federal land bank associations. While the legal aspects are technical, I have lived rather closely with this problem for the past 10 years or so and feel reasonably comfortable with my knowledge of the subject, although distinctly uncomfortable with the subject matter itself.

From the beginning, loans made by units of the Farm Credit System have been considered to be exempt from the provisions of state "usury" laws, and the courts have consistently so held in the few reported cases decided at different times under different provisions of state and federal law. The problem arises from the fact that, in adopting the Farm Credit Act of 1971 which updated and consolidated all prior Farm Credit legislation, the Congress inadvertently omitted any reference to the System exemption. By and large, the System has felt so confident of its continued exempt status that it has continued to lend in reliance on its congressional mandate without regard to state law, except in unusual circumstances such as that which exists in my own state of Arkansas, and with respect to which the bulk of my testimony will be addressed.

Arkansas has an "all or nothing" constitutional provision in which the lender loses everything—both principal and interest—if he goes over the 10 percent limitation by even the smallest fraction. The Farm Credit System has almost \$1.1 billion at risk in Arkansas and has elected to hold the line at 10 percent, with one exception now in litigation. For all units concerned, The Federal Land Bank of St. Louis, the production credit associations in Arkansas, and the St. Louis Bank for Cooperatives, the present cost of the major source of loan funds (investor funds obtained through the sale of Consolidated Federal Farm Credit Bank bonds) far exceeds the rates of interest being charged in the state of Arkansas: October bond issues cost 11.4 percent for the 9-month maturity; 11.5 percent for the 6-month maturity.

Apart from their own limited capital, the Arkansas PCAs' only lawful source of loan funds is the FICB of St. Louis which sets its interest rate based on its average cost of bonds outstanding for the month. Except for one month, the cost of those bonds has exceeded 10 percent throughout 1979. For October of 1979 that cost is 10.29 percent to the PCAs. The message is clear and simple: the Arkansas PCAs, to varying degrees, are either in a loss position or will be very shortly with no relief in sight. They will soon have to decide whether to gamble on the System exemption or go out of business, in which case they will not be able to perform the function for which Congress created them.

The situation for The Federal Land Bank of St. Louis is similar, although the problem has been slower in developing because the "delivery cost" on long-term real estate loans is substantially less than in the case of the high activity, high service requirements of production type financing. The Federal Land Bank of St. Louis has gone to a 9½ percent rate (except for so-called "blended" loans) and with other charges which might be held to be "interest" under Arkansas law, it can go no higher. However, the current cost of new money is now the same for all elements of the Farm Credit System. It is only the net worth account, the lower cost of some longer-term bonds, and the lower loan service costs which have spared The Federal Land Bank until recently. The situation will become rapidly more critical at present money costs.

Now let me speak as the chief executive officer of a borrower from the St. Louis Bank for Cooperatives. As a member of the board of directors of that bank I am quite familiar with their own financial data and know that with their present cost of new money they cannot continue to lend at 10 percent indefinitely.

As a result of the uncertainty over the System usury exemption, the lending rates of the St. Louis BC have been locked at 10% since January of 1979—the lowest of any BC in the nation. (Recent years' bond prices, BC interest rates, and the impact of the current "squeeze" are reflected in the graphs attached.) With \$908,259,458.57 in loans outstanding at the end of August, the overall

average rate on loans was 9.885 percent with an average total debt rate of 9.719 percent which leaves a margin of only .16 percent. With operating cost amounting to an average of .20 percent, we're fortunate that our BC management has had the foresight to build its own net worth to a level that permits the bank to weather a period of this sort. But it's not a sound mode of operation that should not and cannot be permitted to continue.

As of August 31, the St. Louis Bank for Cooperatives had almost \$148 million loaned to 83 co-ops in Arkansas. That is a volume of money that could not be found elsewhere in Arkansas today. Southern Farmers Association, that I represent here today, is currently using a \$23 million line of credit from the St. Louis BC.

As a borrower representative, I want the Bank for Cooperatives to be able to charge whatever rate is necessary for it to remain a viable lending organization able to fill the credit needs of the Southern Farmers Association and other cooperatives.

In our case, we're talking about providing seed, chemicals, fertilizer, petroleum, feed, and other farm supplies to farmers, at cost, through the cooperative way of doing business. It's the same principle as far as the Banks for Cooperatives is concerned—supplying money at *cost*—not below cost. That can't be done over any period of time. We have no government capital in the Farm Credit System, lend no public funds, and have no government guarantors. We have no deposit accounts. The only practical source of funds is through the sale of consolidated Farm Credit System bonds and that reflects the cost of money in general.

The Southern Farmers Association serves farmers, many of whom are PCA and Federal Land Bank borrowers. SFA, which had annual sales of \$141.6 million in the past fiscal year, needs Farm Credit System money to operate and so do the farmers who buy our supplies and for whom we exist. A sound and continuing source of credit is imperative. We know Congress intended we should have it regardless of State law. We ask the Congress to make its intent more clear through these provisions of H.R. 4782.

Cooperative eligibility

In urging your favorable support of H.R. 4782 there is another provision of the bill to which I would like to call your attention. Section 305 provides for reducing the percentage of voting control of a cooperative which must be in the hands of farmers from the present 80 percent (70 percent in the case of rural electric cooperatives) to 60 percent for a cooperative to be eligible to borrow from a Bank for Cooperatives.

The Farm Credit Act of 1971 maintained the basic requirements for cooperative eligibility which were contained in the Agricultural Marketing Act including the 80 percent limitation. In 1975 Congress reduced the amount of voting control in the case of public utility cooperatives to 70 percent. This reduction has provided benefit, but if H.R. 4782 is passed, more cooperatives would become eligible for Bank for Cooperative financing. By lowering the requirement to 60 percent, Banks for Cooperatives will be able to more fully serve the credit needs of rural America without abandoning the principle of farmer control of eligible cooperatives.

Particular benefit would be realized by the rural utility cooperatives because they are not usually in a position to exclude from membership any nonfarmers in the areas which they serve. They are generally required to provide service to all users, whether they be farmers or town residents in areas we would all consider rural America. Because of this regulatory requirement over which they have no control, they are, in essence, penalized to the extent that by having to serve nonfarmers they are effectively prohibited from using the services of the Banks for Cooperatives if the service to nonfarmers pushes them below the 70 percent requirement. Similar benefits would accrue to strictly agricultural cooperatives whose percentage of farmer control does not meet the present requirement, but which are nonetheless substantially controlled by their farmer members.

Export financing

Although Southern Farmers Association, of which I am chief executive officer, is not involved in marketing farm products, I have followed the marketing problems of farmers rather closely for the past 20 years or so in several different capacities, including that of being Chairman of the Board of Directors of the National Council of Farmer Cooperatives and the American Institute of Coopera-

tion. I have also been on the board of directors of Agricultural Cooperative Development International and a member of other organizations in which foreign markets for farmer products was and is a subject of major concern.

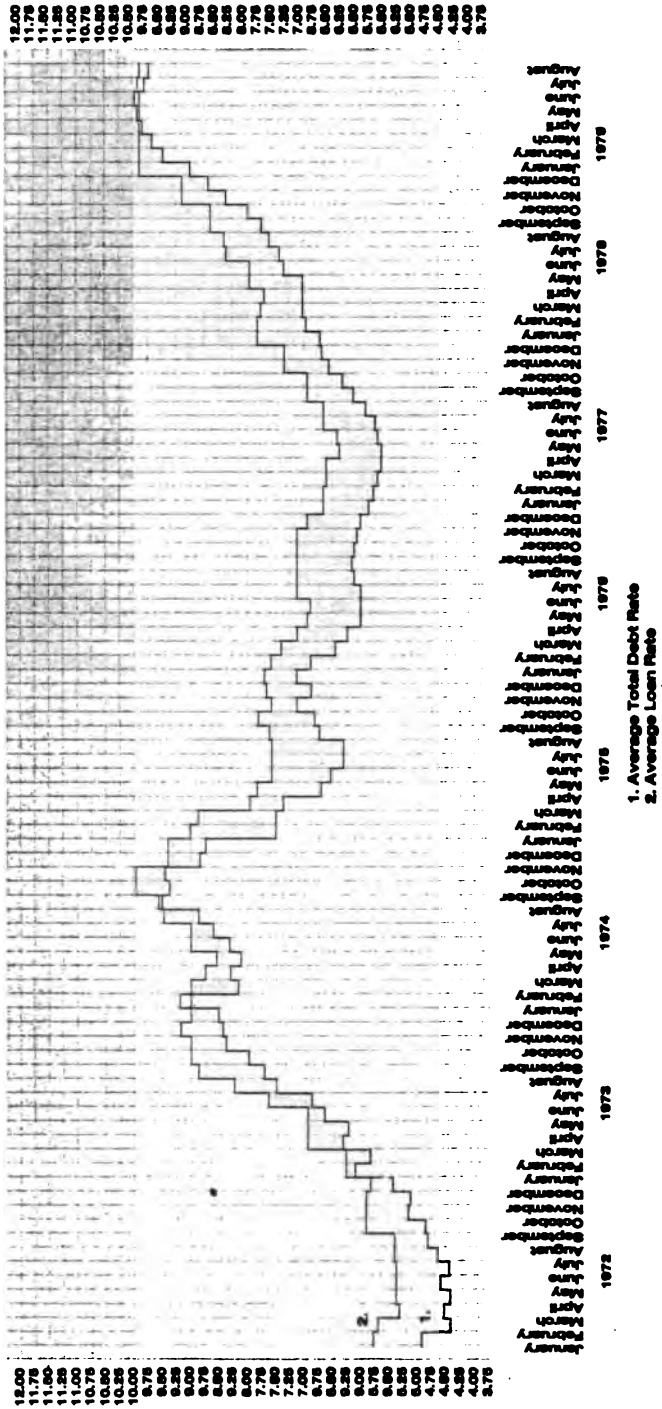
The importance of exports to our nation from the standpoint of balance of trade is so well recognized and documented that no useful purpose would be served by repetition here. What may not be so well understood is the importance of exports to the state of Arkansas, which accounts for 35.3 percent of the rice, 7.2 percent of the cotton, and 5.7 percent of the soybeans produced in the United States. Nationally, 73 percent of our rice, 55 percent of our soybeans, and 39 percent of our cotton is exported. A very high percentage of Arkansas production is marketed through cooperative channels, as contrasted with many other states.

Farmers want to increase their share of the export market, market through cooperative channels, and have their own Bank for Cooperatives play a more direct role by being able to participate in international financial transactions. Banks for Cooperatives do not presently have that authority. Without that authority the BCs are precluded from the opportunity of financing much of their own member cooperatives' export transactions.

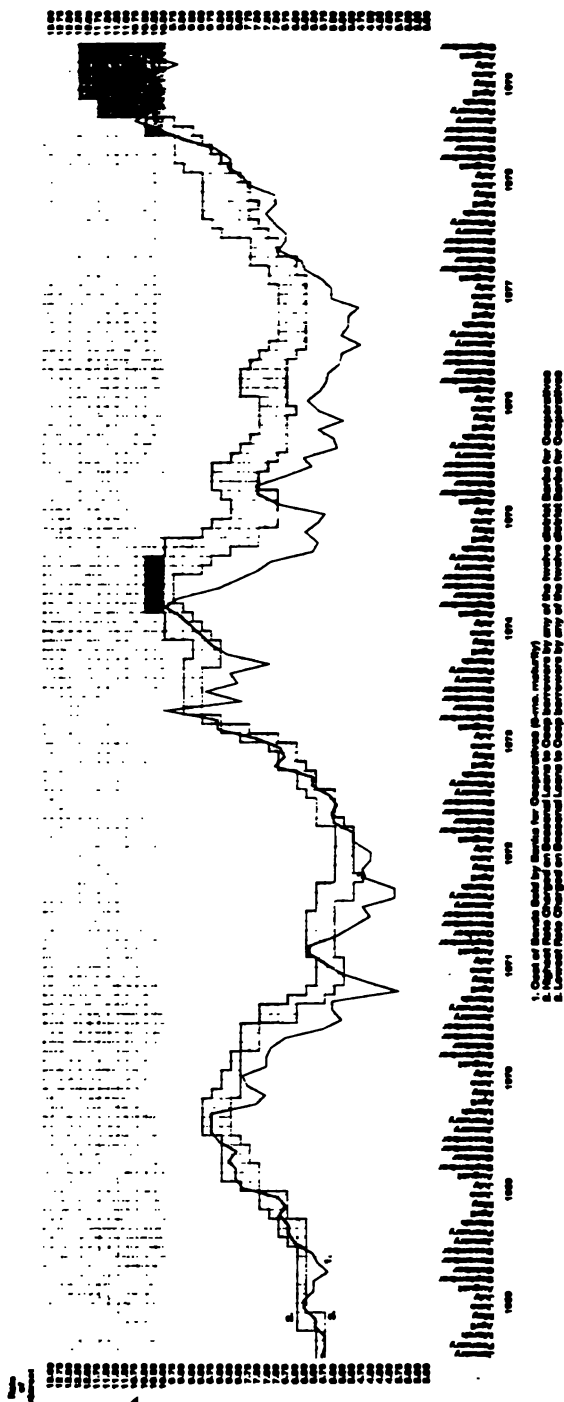
Southern Farmers Association and I have had a long and healthy relationship with the Banks for Cooperatives. They have been more than just a lender to us. They have been an advisor and counselor in times of need. They have come to our aid because of their knowledge of our business and its objectives. This same counseling role should be available to exporting cooperatives by their primary lender to help them manage their risks better. The Banks for Cooperatives have the resources and expertise to develop sound programs to offer commercial exporting services which would include the use of present insurance, guarantee, and information programs provided by the U.S. Export-Import Bank, FCIA, private insurers, international commercial banks, and others who have appropriate roles in export transactions.

My belief is that a real need exists and that the passage of H.R. 4782 will provide the authority to meet that need. As a Farm Credit District Director, I pledge my best efforts to cause that authority to be utilized in a sound and sensible manner.

St. Louis Bank for Cooperatives
January 1, 1972 - August 31, 1979



TWELVE DISTRICT BANK FOR COOPERATIVES



Mr. JONES of Tennessee. Mr. Gist, you are next.

Mr. GIST. I have submitted for the record copies of my statement, and gentlemen, I'll be very brief.

**STATEMENT OF THOMAS H. GIST, JR., FARMER, MARIANNA, ARK.,
MEMBER, BOARD OF DIRECTORS, SIXTH FARM CREDIT DISTRICT**

Mr. GIST. Mr. Chairman, Congressman, I'm Tom Gist, Jr., from Marianna, Ark., in Lee County, which is some 50 miles southwest of here. I'm on a family farm with rice, cotton, soybeans, and a few cows. I'm elected chairman of the board of the Sixth District of Farm Credit Banks, which today serves Arkansas, Missouri, and Illinois.

I'm here today to urge passage as introduced of House bill 4782. My two subjects will be somewhat repetitious, but I hope not too much, concerning the clarification of State interest rate limitations; and, two, export financing of banks for co-ops.

Today in Arkansas we have 14 PCA's, 9 of which are losing money on loans. At August 31 end of this year, \$578,000 was shown on the records as loss, with an anticipated loss by yearend of over \$1 million.

As previously stated by my colleagues, the cost of money is above our lending limit.

The Federal Land Bank Association of St. Louis which operates in my State is at the present rate of 9¾, which is our highest rate in history that we've ever charged. Given a 1-percent closing fee puts us at the maximum.

Our bank for cooperatives which operates in the three States, and especially in Arkansas, at 10 percent today is the lowest rate in the United States of all 12 districts.

Gentlemen, as chairman of the board, I feel responsible to keep credit our only business, that Congress has mandated us to keep money available to the producers of this great Nation. We have a limiting charter. We have a special purpose, and to maintain this purpose on a self-sustaining basis.

Briefly, my other comments will be concerning co-op financing.

You are well aware of the recent grain sales to Russia and some of the major countries throughout the world, and the farmers are very much aware of these prices and these sales, and they want to become more active in exporting their own products.

The bottom line is more income to the farmer. With this co-op arranging expertise, it will also funnel smaller co-ops, not only the multinational companies, but smaller co-ops to their export end.

What we're asking for is just what the commercial banks have for today. We want no more. We want to ask just what they're doing.

Gentlemen, in closing, the farmers own this system. I'm elected by farmers. I represent Riceland Foods and Southern Farmers and other responsibilities, and we have a responsibility to serve these people.

I'm just a farmer. I'm not an international banker and these authorities are quite technical. So we have people later today that we hope will be able to answer your questions concerning the technical aspects.

Further, I also know that the cooperatives need this as a primary lender, the Banks for Cooperatives to assist them in these export markets.

As a farmer and as a member and director of several of these, I urge you to act favorably on H.R. 4782.

Again, I thank you for your appearance.

Mr. JONES of Tennessee. Thank you very much, Mr. Gist. We will consider the things that are incorporated in your testimony.

[The prepared statement of Mr. Gist follows:]

PREPARED STATEMENT OF THOMAS H. GIST, JR., MARIANNA, ARK., MEMBER, BOARD OF DIRECTORS, SIXTH FARM CREDIT DISTRICT

Gentlemen, my name is Thomas H. Gist, Jr. I am a farmer and my home is at Marianna, Arkansas. In addition to my primary occupation of farming, I am a member of the board of directors of several agricultural cooperatives, including the Board of Directors of the Sixth Farm Credit District, of which I am currently serving as Chairman.

I am here before you today to urge your support in passage of H.R. 4782, which contains amendments to the Farm Credit Act of 1971. In particular, I would call your attention to Section 403 of the bill which relates to the preemption of state interest rate limitations, and Sections 301 and 304 which relate to expanded authority for the banks for cooperatives to provide export financing services.

The costs associated with the land, seed, fertilizer, machinery and labor that go into farming today are very substantial. Without a reliable source of credit, the whole structure of United States agriculture including the family farm and farmer cooperatives would topple. The effect on our nation's economy generally and on farmers particularly would be disastrous.

Approximately one-third of all agricultural credit in the United States is provided by the institutions of the Farm Credit System, which is the primary provider of the reliable source of credit that keeps our agriculture producing at its present level. The continued existence of these institutions was made possible by the Farm Credit Act of 1971. I'm proud that last year in our Sixth District alone our Farm Credit Banks and the associations they supervise, loaned more than \$5 billion to farmers in Illinois, Missouri, and Arkansas and their cooperatives. Our banks did that in 1978 and in the prior years because they were able to pay the market rate for money on Wall Street and lend it at a rate that not only covered the cost but paid the "freight" and allowed for reserves on earnings they need to remain in business as strong financial institutions. But our district and the System need Section 403 of the bill if we are to continue that lending in 1979 and beyond.

Section 403 of H.R. 4782 provides language that would remove all doubt that the rates charged by these institutions are not subject to interest rate limitations imposed by any State. Where state interest rate limitations interfere with the ability of Farm Credit institutions to charge a rate of interest on loans which is sufficient to keep the institutions operating on a self-sustaining basis, the reliable source of credit that farmers and cooperatives need is jeopardized. The need for agricultural credit which the Farm Credit institutions were chartered by Congress to supply would go unsatisfied. It is imperative that the clarification be made, particularly in my home state of Arkansas, where the best legal talents available have advised these institutions that the constitutionally imposed limit of 100 percent must be complied with. Yet, if the current high cost of money cannot be reflected in the rate charged in my state by Farm Credit institutions, then they cannot continue to serve the needs of farmers and cooperatives there.

I've generally looked on usury rates as a good thing to prevent loan sharking, price gouging, and building of unreasonable profits to lenders at debtors' expense. But those justifications just don't apply to Farm Credit institutions—and (I think) were never intended to. These banks and associations are 100 percent borrower owned cooperatives with loan rates set by farmer boards of directors within FCA regulations and approvals. I can't imagine farmer/borrowers gouging themselves with high interest rates. In any case, the profits they'd earn would only go to strengthen their own organization or be returned to the borrowers in the form of patronage refunds.

Application of state usury laws to the PCA, FLBs, and BCs would serve no purpose and could only prohibit their serving the very purpose for which they were created: to provide a dependable source of credit to farmers and their cooperatives.

As Chairman of the Board of the Sixth District Farm Credit Banks, I feel a heavy responsibility for their ultimate success or failure in providing an on-going source of agricultural credit in our three states.

Under current conditions, it is quickly becoming impossible for those institutions to continue in business in my home state. With the cost of funds well above their 10 percent loan rate, 9 Arkansas PCAs reported year-to-date losses on lending operations totaling almost \$578,000 as of August 31. At 10 percent, the St. Louis Bank for Cooperatives is charging the lowest rate of any BC in the country with a margin above average debt cost that wouldn't pay operating costs. The St. Louis Federal Land Bank is lending long-term credit at 9.75 percent—its highest rate in history. With a 1 percent loan fee they can go no higher and remain under 10 percent. These institutions cannot lend money at a loss for any sustained period. If they must cease operations because of continuing losses, then their Congressional objective of providing a dependable credit source cannot be attained and they are put out of the only business which their limited purpose charters permit. We ask that you act favorably on H.R. 4782 to clarify the preemption on state interest rate limitations contained in the Farm Credit Act of 1971 in order that the institutions of the System can accomplish their reason for being.

I would also like to call your attention to provisions of the bill relating to expanded export financing services offered by banks for cooperatives. I have been privileged to serve as a member of the board of directors of several agricultural cooperatives. I am presently a member of the board of Riceland Foods, Inc., a major cooperative exporter of rice.

The history of cooperatives in the United States is one of the real success stories of our times. The ability of farmers to work together to provide for their own needs in the areas of farm supplies and the marketing of farm products, and the financing of their own credit needs is one of the major reasons for the success of our family farms. The ability of farmer cooperatives to fulfill the necessary functions in the channels of supply and distribution has given the family farmer a voice in the marketplace.

However, this success story has not extended to the ultimate user in the distribution channel for farm products. About 40 percent of the total U.S. agricultural production moves into export markets and a very large percentage of these exports is controlled by a few private international traders. Cooperatives control only a small percentage of such products.

Farmers, through their cooperatives, need to play a larger role in promoting and facilitating farm exports. This interest stems not only from the obvious importance of farm products to the U.S. balance of trade, but also because of the importance of exports to farm prices and farm income. Through increased exports, substantial economic benefits can accrue for our agricultural economy without massive or costly government programs.

Farmers believe that they can become more active direct exporters and are directing their cooperative management to become more active in selling and shipping to foreign buyers. They also believe that it would be in their best interests if their cooperatives handled more than the 9 or 10 percent of the U.S. grain in international trade that cooperatives presently handle. There is a recognition that cooperatives may hold the potential for expanding our total farm markets in other countries. Many major foreign cooperatives have expressed interest in establishing cooperative-to-cooperative trade relations. Their reasons for such interest are the quality of products supplied by cooperatives and the integrity of cooperatives as business organizations.

In order to accomplish these ends, we in cooperatives are calling on our primary lender, the banks for cooperatives, to provide international financial services which will expedite our cooperative sales abroad. However, when the Farm Credit Act was written in 1971, the tremendous importance of farm exports and the key role of cooperatives in marketing our agricultural products were not contemplated. It is now necessary that the authorities granted to banks for cooperatives in the Farm Credit Act of 1971 be expanded.

H.R. 1485 provides amendments to the Act which would give the banks for cooperatives expanded authorities to serve the needs of cooperatives which desire to engage in the export of farm products. Specifically it would allow banks for cooperatives to make deposits in foreign banks; to receive and hold credit balances from banks and borrowers; to buy and sell bankers acceptances, the pur-

chase of time drafts payable by foreign buyers of agricultural products, and other instruments arising in the ordinary course of business to engage in currency exchange to make loans to parties affiliated with cooperatives where there will be substantial benefit to member cooperatives; and to participate in the ownership of foreign agencies and institutions for the purpose of facilitating the gathering of credit information and performing financial services related to international transactions.

Now I am just a farmer from Marianna, Arkansas, not an international banker and these authorities are quite technical; but I do know all of these authorities are absolutely necessary if banks for cooperatives are to provide the basic services required by my cooperatives involved in international transactions. Further, I also know that cooperatives need their primary lender—the banks for cooperatives—to assist them in expanding export markets and in managing risks in that market.

As a farmer and as a member and director of several cooperatives, I urge that you act favorably on H.R. 1485 for the benefit of all of us. Thank you.

Mr. JONES of Tennessee. Let me say while Mr. Lawhon is coming to the podium that Congressman Alexander was here yesterday and he gave testimony in regard to the Farm Credit Act, as well as conservation.

Mr. Lawhon, welcome.

**STATEMENT OF J. N. LAWHON, FARMER AND BUSINESSMAN,
McCRORY, ARK., REPRESENTING CACHE RIVER PRODUCTION
CREDIT ASSOCIATION, SIXTH DISTRICT, FARM CREDIT SYSTEM**

Mr. LAWHON. Mr. Chairman, I am J. N. Lawhon, a small businessman and farmer from McCrory, Ark., and I'm here representing the Cache River Production Credit Association.

I appreciate the opportunity to present my views concerning this Farm Credit Act Amendment of 1979, because I am a small businessman dealing entirely with farmers. I've been serving the farm community since 1959 in a farm supply operation. During these years our profits have been plowed back into the business and we have been able to serve the farmers better as we have done this.

As we have grown, our financial needs have also grown. We were dealing with the local banks at the beginning, and as our needs grew, the local banks were unable to finance us unless we go through warehousing people to secure our operation, and this added an extra 3 percent operation cost to the cost of our money. This also created a problem for us in operating the business in which we were operating, on account of movement of seed when it needed to be moved.

I began financing with the Cache River Production Credit in about 1970, and during these past years they have been very helpful in saving me money, on the interest especially, that we have been able to operate with their system of in-and-out borrowing that has cut our interest considerably.

We find this, of course, very helpful because we're able to serve the farmer at a much more competitive price as we're able to hold our own costs down.

I don't know how familiar you are with the cost of farming operations, but they are certainly going up and up. Our little operation consists of approximately 350,000 bushels of seed which we glean and

process each year, and this is all grown locally by the local farmers, for which they receive 30 to 50 cents a bushel premium for these seeds.

My Production Credit Association has been able to take care of our needs up till this time, but due to certain limitations, we face a shortage of operating capital for this year and next year that unless we are able to get it through this amendment to this act, we will certainly be forced to curtail our operations to a certain degree.

The reason for this is that the cost of grain and the cost of fertilizers and these types of things have increased in price, and as a farmer I'm certainly not kicking about the increase in the price of grain that we have; but when you start increasing the price of fertilizer by 30 to 50 percent, then we know that this also is going to hurt the farmer.

It's going to take more capital. It's going to take more capital for me as a supplier to be able to have the product when he needs it. So without additional money, it will force us to cut back.

I think my Production Credit Association knows my needs much better than the other ending agencies that I've dealt with, because they stay in close contact with me. It may be for several reasons. They may want to see what I'm doing with their money, but they do visit us regularly and keep up with our operations, and this gives us a service that we haven't had from the local banks.

I have most of my farm machinery insured with PCA, and I just want to say this about the insurance part of it. I insured it mainly just to save money. I'm a businessman and I like to save money, and when I can save money on my premium, I was interested in it, and especially in the service they gave me.

Two, it makes sense to me as a person to do business with an organization which I own a part of. So I think that's important.

So the passage of the Farm Credit Act Amendment of 1979 is of great importance to me as a supplier of inputs to the farmer, and I think it is important to the local farmer who depends upon me for these inputs, because I'm not that large an operator, but I do know that if we're curtailed, there are going to be a certain number of farmers that are going to be curtailed, and will not be able to get the things they need.

I have here with me, Mr. Chairman, a list of 257 names of farmers that agree with me on the statements that I've made and on a petition which we have circulated, and they have signed to support my testimony and to urge the passage of this Act.

I want to thank you for letting me express my views to you, and we certainly urge you to do all in your power to present this.

Mr. JONES of Tennessee. Thank you, Mr. Lawhon. The names of the supporters of the bill will be made a part of the subcommittee file.

[The material submitted by Mr. Lawhon is held in the subcommittee file.]

Mr. MADIGAN. Mr. Neal Gillen from the American Cotton Shippers.

Mr. GILLEN. Thank you, Mr. Chairman. I'm Neal Gillen. I'm general counsel of the American Cotton Shippers Association. We have two witnesses this morning, Mr. Peter Hirschfeld of Dallas, and Mr. Earle Billings of Memphis.

STATEMENT OF PETER HIRSCHFELD, DALLAS, TEX., SECOND VICE PRESIDENT AND CHAIRMAN, COMMITTEE ON FOREIGN AFFAIRS, AMERICAN COTTON SHIPPERS ASSOCIATION, ACCOMPANIED BY NEAL P. GILLEN, WASHINGTON, D.C., GENERAL COUNSEL

Mr. HIRSCHFELD. Mr. Chairman and Mr. Madigan, I am Peter Hirschfeld of Dallas, Tex., second vice president of the American Cotton Shippers Association and chairman of the Foreign Affairs Committee. Appearing with me today are Mr. Earle Billings of Memphis, our executive vice president, and Mr. Neal Gillen of Washington, D.C., our vice president and general counsel. I appear today to express our views regarding H.R. 4782, amendments to the Farm Credit Act of 1971.

The American Cotton Shippers Association was founded in 1924 and is basically comprised of merchants, shippers, and exporters of raw cotton who are members of 5 federated associations located in 16 States throughout the Cotton Belt: The Arkansas-Missouri Cotton Trade Association, the Atlantic Cotton Association, Southern Cotton Association, Texas Cotton Association, and the Western Cotton Shippers Association.

The 525 members of the American Cotton Shippers Association handle over 80 percent of the domestic cotton crop and 90 percent of the export market for cotton. Two of the three major cotton co-ops who are exporting cotton are also members of our association. The association takes an active part in promoting the increased use of cotton in the United States and throughout the world.

It establishes with other trade groups national and international standards for trade. It collaborates with producers throughout the Cotton Belt in formulating farm programs; and it cooperates with Government agencies in the administration of such programs.

Cotton merchants have a dual function of buying and selling cotton, including the assumption of the time, quality, and price risks. The merchants purchase and assemble millions of individual bales of cotton offered for sale by approximately 100,000 farmers producing cotton in 16 States across the Cotton Belt.

Over 18 varieties of American cotton are produced in several hundred combinations of quality and staple lengths, which is due to the various types of seed, soil, weather conditions, and harvesting practices. The merchant classes each bale of cotton to the quality factors and assembles the cotton of the same grade, staple length, color, and character into even-running lots in warehouses at various locations in the different States.

Cotton is sold to textile mills in spinners' markets in even-running lots at various times and delivery is made to locations designated by the various textile mills.

The merchant also performs the function of storing and concentrating cotton and the financing of surplus spot cotton, including the excess ginnings over consumption during the major harvest months. Over the years the independent and cooperative segments of the cotton industry have labored to improve the foreign markets for American cotton. These united efforts have resulted in a number of improvements

in the export credit programs available through the U.S. Department of Agriculture, in particular the programs administered by the Commodity Credit Corporation.

We continue to endorse all of the traditional methods of making credit available to agricultural producers and we recognize the need for improvement.

The private banking community and the farm credit system has an outstanding record of administering to the important needs of this most productive segment of our economy, the American farmer.

Recognizing the need for improved credit facilities, we do not support that part of H.R. 4782 which creates a special export system for the exclusive use of farm cooperatives.

Export credit programs must be available to the entire U.S. export community and not be the exclusive province of a particular segment of the farm economy which already enjoys significant advantages over the private sector.

There is no need for a special banking system available only to cooperatives.

What is needed is an improved and expanded agricultural export credit program, such as that discussed on September 18 by Dr. Kelly Harrison, Director, Office of General Sales Manager, USDA, to the Agriculture Subcommittee of the President's Export Council.

Dr. Harrison observed that fluctuating CCC export credit levels in the USDA budget may have hurt the program, because CCC outlays for commodity support programs increase in years when commodity prices are low, and thus CCC export funds shrink proportionately.

Dr. Harrison told the subcommittee that the USDA was discussing a proposal that would remove export credit from the CCC umbrella and create a self-sustaining fund.

We endorse such a self-sustaining fund and support the recommendation of the Subcommittee on Agriculture of the President's Export Council that:

In recent years certain anomalies of the funding process and other general budget considerations have resulted in wide fluctuations in CCC export credit program funding levels and seriously have reduced its effectiveness as a market development tool.

The fiscal year 1979 program has been cut in half to \$800 million for fiscal year 1980.

The subcommittee recommends that funding for the fiscal year 1980 CCC program be increased to take advantage of current export opportunities.

As a longer term solution to this problem, the subcommittee recommends that the executive and legislative branches consider the establishment of a revolving export credit capital fund.

We recommend that the subcommittee delete the export proposals of H.R. 4782 and consider instead a substantial expansion of the existing and proven credit programs efficiently and effectively managed by the Commodity Credit Corporation.

Now, Mr. Chairman, Congressman Madigan, I have just returned last week from a long business trip to the Far East where our major cotton markets are these days.

I came this morning from Dallas to give this testimony, but I have to return on a noon flight to my office today.

I can answer questions regarding the availability of export credit or the service of our commercial banks, if you have time now. Otherwise,

Mr. Earl Billings is available all day today to answer your questions later.

At the close of my testimony, Mr. Earl Billings would like to present another short statement.

Mr. MADIGAN. Mr. Hirschfeld, we thank you for coming up from Dallas. I don't think it will be necessary to go into the question and answer period now, because I'm sure that you and the other people who have testified here will have another opportunity to testify before the subcommittee at hearings in Washington, which will occur later; but we would be happy at this point to hear from Mr. Billings.

**STATEMENT OF EARL N. BILLINGS, EXECUTIVE VICE PRESIDENT
AND SECRETARY OF THE AMERICAN COTTON SHIPPERS
ASSOCIATION**

Mr. BILLINGS. Mr. Chairman, my name is Earl Billings, and I'm executive vice president and secretary of the American Cotton Shippers Association, and I live in Memphis, Tenn.

Mr. Chairman, the hearing record regrettably contains the following statement, and I quote:

If there is opposition to the Banks for Cooperatives entering the field of international financing of agricultural commodities, it is likely to be by international trading firms. They will likely base their opposition on the basis that this would create a source of credit to which they would be denied access.

I would refresh your memory that many international trading firms are not even domestic corporations and that they have a multitude of connections that give access to foreign trade that are not available to farm cooperatives.

For the purpose of providing an accurate record, we wish to provide the subcommittee with a copy of the "U.S. Cotton Handbook, 1979," which is published by the National Cotton Council, which contains the names of all 157 U.S. domiciled cotton exporting firms and their affiliated companies.

To our knowledge, only nine of the U.S. domiciled firms have any connection with a foreign-based company.

We believe that all of the foreign-owned firms combined do not even approach the export volume of any of the U.S. cotton marketing cooperatives.

The record should also reflect that the majority of U.S. exporting firms fall within the category of small businessmen.

Thank you very much.

Mr. MADIGAN. Thank you, Mr. Billings.

[The handbook referred to is held in the subcommittee file.]

Mr. MADIGAN. Our next witness is Earl Bullington.

[The prepared statement of Mr. Bullington follows:]

Statement of
Earl Bullington
on behalf of the
Caruthersville Production Credit Association, Sixth District
of the Farm Credit System

Mr. Chairman and members of the subcommittee, I am Earl Bullington, president of the Caruthersville Production Credit Association, Caruthersville, Missouri, serving Pemiscot and Dunklin counties; this area being just across the river from Dyersburg, Tennessee, and just north of Blytheville, Arkansas. I appreciate this opportunity to present the Caruthersville PCA's views concerning HR Bill 4782 - the Farm Credit Act Amendment of 1979.

We have followed closely the progress of this bill and support the bill because we believe it is a good piece of legislation for the farmer. Parts of the bill will certainly benefit the marketing co-ops by allowing them to offer financial services that will facilitate international trade.

In the interest of time, I would like to address the rest of my remarks to the most serious issue that has been raised by the independent insurance agents, Farm Bureau and others as to the basic right of the Farm Credit System to offer insurance services to its members. Efforts are now being made by the insurance industry to add an amendment to this bill that will prohibit the Farm Credit System from offering insurance services to its members.

I have been with the Caruthersville PCA since 1955. We were offering credit life insurance then and still are today. We have been writing crop hail insurance since 1969. When the collateral insurance program was approved, we asked to be a pilot association and have been offering collateral insurance since 1976.

No one in this room is more familiar than I am with the various charges made by independent agents and Farm Bureau concerning our collateral insurance program.

First, I am going to outline the charges that have been made and then

I am going to answer these charges with facts that we can back up.

1. PCAs coerce borrowers to take their insurance by virtue of the fact that they control their loans.
2. By law, PCA can sell insurance only where there is a need for it and there is a sufficient number of insurance people today to meet the need.
3. PCAs are government agencies and they are infringing on private enterprise.
4. PCA employees aren't properly trained and, therefore, are not qualified to sell insurance.
5. PCA employees get paid for selling insurance.
6. The 1971 law allows PCAs to write collateral insurance on only the items financed.

As I mentioned earlier, we have been in the collateral insurance business since 1976. As a matter of fact, our association wrote the first collateral insurance policy issued in the Sixth Farm Credit District. We now have approximately 24% of our members covered under the collateral insurance program and, during the 3½ years we have been in this program, the 10 years we have been in the crop hail program and the 26 years we have been in the credit life program, there has never been a single charge of coercion on the part of any of our borrowers. We have had many of our members tell us that their insurance agents told them, if they were going to change their farm insurance business to PCA, they had better find someone to insure their vehicles. The insurance agents know the Farm Credit Act of 1971 prohibits us from writing insurance on any licensed vehicle. In my opinion, this method of holding business could certainly be con-

strued as coercion. Another point to be made is that automobiles are a large part of the insurance market and, although we may finance them, we can't insure them.

The second charge is that there is no need for PCA to be in the business because there are plenty of insurance agents around. I will agree that there are sufficient agents out there to handle the business but our records indicate that the majority of them are doing a very poor job of servicing the farm insurance business. I am submitting material to back up this statement. (Exhibit 1) In the first full year of the collateral insurance program, all associations in the district maintained records of the coverages the individuals had versus the new coverages written by PCA. These figures reveal that the farmers had less than half the necessary coverage under these old policies. I am submitting additional information from our own files involving several cases of inefficiency, or maybe professional incompetence, on the part of local insurance agents. (Exhibit 2) One agent had a PCA member covered with a \$250,000 blanket machinery policy and, when he asked us to look at his business, we found that he needed \$662,000 coverage to have his machinery properly insured. Many of the farmers who have written their coverage under our program say they haven't seen their agents for at least three years and, in one case, it had been five years. There's no way a farmer's business can be properly serviced with a visit once every three years.

The third charge I mentioned is that we are a government agency. This is the farthest thing from the truth, as you all well know. Yes, we were chartered by federal law to do business but the Caruthersville Production Credit Association paid off the last government capital in 1955 and, this past year, we paid nearly \$40,000 in state and federal income taxes.

The fourth charge is that PCA employees aren't properly trained. All the men in our association are properly licensed and passed the same state insurance test that any Missouri insurance agent passes. We are permitted, by law, to sell only farm collateral insurance. We are more qualified to determine the insurance needs of the farmer than most agents in the business.

We have been charged with getting commissions for selling insurance. This would be the fastest way a PCA employee could lose his job. The regulations prohibit PCA employees from receiving any type of commission, favor or reward for selling insurance. Insurance is just an additional service we offer - like farm records or our machinery leasing program.

On the question of writing insurance on only the item being financed, it's difficult for me to understand their reasoning. Some of our loans are unsecured and, although we have no security interest, the repayment of the loan could be considered to be in jeopardy if such assets were not protected by insurance. Recently, when talking with one of our members about his insurance needs, we found that he had over a half dozen different policies with as many different maturity dates. In this confusion, we found that his farm machinery policy had been expired for several months. If PCAs were allowed to write insurance on only the particular item being financed, we would just add to this confusion.

Farm Bureau, who is supposed to be the farmer's friend, has been the leader in our state in trying to stop PCAs from offering insurance to its members. They have charged that it isn't right for a lending agency to offer insurance. They do, however, feel that it's all right for an insurance agency to offer credit. As a matter of fact, I am submitting copies of the Missouri Farm Bureau's annual meeting notices, announcing eight different Farm Bureau organizations, ranging from the Missouri Farm Bureau

Finance Company to the Missouri Farm Bureau Merchandising Company. It's difficult for me to understand how an organization that's doing everything from selling tires to financing cars can complain about PCAs offering insurance to only their borrowing members.

I would like to emphasize the point here that Farm Bureau, as well as the other insurance companies, has access to 100% of the total insurance market. By law, PCAs are limited to only those members who have a loan. Let me give you some exact figures as to what that means in the Caruthersville PCA. We presently have 820 members. Based on the last census for Pemiscot and Dunklin counties (the area we serve), there are approximately 15,000 families. If our association got to write every member we finance, we would still be talking about no more than 5% of the insurance market. This is not 5% of the total market because you need to keep in mind that we cannot insure automobiles. Based on our other insurance programs, the most we can hope for is around 50% of the membership so we're talking about less than 3% of the insurance market. PCAs are not the insurance man's competition - not when we're restricted to this small portion of the market.

Let's not lose sight of who benefits from competition. We've been in the collateral insurance business only three years and we can already see other agents doing a better job. They are making more frequent visits and updating the insurance values. This is as it should be. Regardless of who writes the business, we want the farmer to be properly served.

The programs we offer, such as Insurance and machinery leasing, not only generate additional income to the association; they let us utilize our people better. Last year, over half of our operating expenses were paid with income from these credit related services. This has allowed us to refund a part of the interest to the borrowing members in each of the last

three years.

I fail to see anything unlawful or sinful about a group of farmers wanting to have a better insurance program and, at the same time, save money. I think the basic difference we've been talking about is simply that PCAs are offering insurance to their members as an additional service and for the satisfaction of knowing that the collateral we hold is properly covered. Farm Bureau and the independent insurance agents receive a commission from their sales. If PCA writes a new policy, then someone has lost a commission and this is the real reason the insurance agents are complaining that PCA is unfair competition.

Let me remind you that, at PCA, the insurance is entirely optional. Any member wanting the insurance must sign at least two documents acknowledging that the insurance is optional. In this particular area, we are probably more regulated than the postal department.

All the farmers in our area (not just the PCA members) have benefited from our entry into the insurance market place. The service by insurance agents has improved and we've also seen some insurance companies lower their rates. The farmer is the beneficiary in each case.

Today, I have outlined my arguments and stated my reasons why I think the Farm Credit System should retain its present authority to offer credit related insurance services. I have submitted documented proof of its benefits to the farmer. After you have had time to review this material, should any member of the committee have questions pertaining to my presentation or the documents submitted, I will be happy to answer them.

SIXTH DISTRICT
11-17-77Exhibit 1
Caruthersville PCA

	<u>Old Amount</u>	<u>New Amount</u>
MAIN DWELLING	\$1,439,000.00	\$2,183,000.00
TENANT DWELLING	143,000.00	221,000.00
MOBILE HOME	6,000.00	6,000.00
BARNs & OUTBUILDINGS	390,000.00	491,000.00
POULTRY HOUSE	361,000.00	549,000.00
EQUIPMENT	434,000.00	842,000.00
BOAT & TRAILER	-----	2,450.00
LIVESTOCK	26,000.00	34,000.00
MISCELLANEOUS	1,000.00	7,230.00
TOTAL	\$2,800,000.00	\$4,335,680.00 ^{155%}
LIABILITY	3,500,000.00	11,515,000.00
TOTAL	\$6,300,000.00	\$15,850,680.00
# OF SURVEYS	<u>80</u>	
# UNDERINSURED	<u>68</u>	85%

Exhibit 4
Caruthersville PCA

COMPARISON OF PRESENT COVERAGES AND THE AMOUNTS ASSOCIATION WROTE

	<u>Old Coverages</u>	<u>PCA Wrote</u>
<u>Case #1 (V. Williams)</u>		
Dwelling (30 x 36 w/ 12 x 14 carport)	9,500	23,000
contents	2,000	11,500
Liability	None	100,000/500
<u>Case #2 (Underwoods)</u>		
Machinery	250,000 Blanket	150,000 Blanket 512,000 Scheduled
<u>Case #3 (Womblee)</u>		
Contents	None	12,000
Machinery	40,000 Scheduled	100,000 Blanket
Liability	None	100,000/500
<u>Case #4 (Joe Brooks)</u>		
Machinery	30,000 Blanket	20,000 Blanket 28,700 Scheduled
<u>Case #5 (Don Tins)</u>		
Contents	None	12,000
Machinery	28,000	28,000
Liability	None	100,000/500
<u>Case #6 (Jerry Battles)</u>		
Dwelling	15,000	20,000
Liability	None	100,000/500
<u>Case #7 (V. F. & John Hankins)</u>		
Contents	None	8,000
Contents	None	8,000
Machinery	Separate Pol. picker & Combine	50,000 Blanket
Tenant Dwl.	5,000	10,000
Liability	None	100,000/500

NOTICE OF ANNUAL MEETING

The 5th Annual Meeting of stockholders of Missouri Farm Bureau Finance Company will be held at Tan-Tar-A Lodge, Osage Beach, Missouri, at 1:30 p.m., Monday, December 4, 1978, to take action on the following matters:

1. Reports of Officers and Committees.
2. Election of Directors.
3. All other business as may properly come before the meeting or any recessed session thereof.

Dated this 1st day of November, 1978
Lowell Mohler, Secretary

NOTICE OF ANNUAL MEETING

The 2nd Annual Meeting of stockholders of Missouri Farm Broadcasting, Inc., will be held at Tan-Tar-A Lodge, Osage Beach, Missouri, at 1:30 p.m., Monday, December 4, 1978, to take action on the following matters:

1. Reports of Officers and Committees.
2. Election of Directors.
3. All other business as may properly come before the meeting or any recessed session thereof.

Dated this 1st day of November, 1978
Lowell Mohler, Secretary

NOTICE OF ANNUAL MEETING

The 6th Annual Meeting of members of Missouri Farm Bureau Federation will be held at Tan-Tar-A Lodge, Osage Beach, Missouri, at 9:00 a.m., Monday, December 4, 1978, and continuing through December 5, 1978.

Specifically, the business to be transacted is as follows:

1. Election of a President for a two-year term beginning as soon as he has been duly elected and qualified.
2. Election of Directors from Districts 1, 2, & 3, each Director to serve a two-year term beginning as soon as they have been duly elected and qualified.
3. Election of a Director at Large, representing the area south of the Missouri River for a two-year term beginning as soon as she has been duly elected and qualified.
4. Take action upon such resolutions as may be submitted to the Delegate Body by the Resolutions Committee and from the floor.
5. Take action upon such other business as may properly come before the meeting or any recessed session thereof.

Dated this 1st day of November, 1978
Lowell Mohler, Secretary

NOTICE OF ANNUAL MEETING

The 3th Annual Meeting of stockholders of Missouri Farm Bureau Services, Inc., will be held at Tan-Tar-A Lodge, Osage Beach, Missouri, at 1:30 p.m., Monday, December 4, 1978, to take action on the following matters:

1. Reports of Officers and Committees.
2. Election of Directors.
3. All other business as may properly come before the meeting or any recessed session thereof.

Dated this 1st day of November, 1978
Lowell Mohler, Secretary

NOTICE OF ANNUAL MEETING

The 7th Annual Meeting of stockholders of Farm Bureau Town & Country Insurance Company of Missouri, will be held at Tan-Tar-A Lodge, Osage Beach, Missouri, at 1:30 p.m., Monday, December 4, 1978, to take action on the following matters:

1. Reports of Officers and Committees.
2. Election of Directors.
3. All other business as may properly come before the meeting or any recessed session thereof.

Dated this 1st day of November, 1978
Lowell Mohler, Secretary

NOTICE OF ANNUAL MEETING

The 8th Annual Meeting of stockholders of Missouri Farm Bureau Merchandising, Incorporated, will be held at Tan-Tar-A Lodge, Osage Beach, Missouri, at 1:30 p.m., Monday, December 4, 1978, to take action on the following matters:

1. Reports of Officers and Committees.
2. Election of Directors.
3. All other business as may properly come before the meeting or any recessed session thereof.

Dated this 1st day of November, 1978
Lowell Mohler, Secretary

NOTICE OF ANNUAL MEETING

The 29th Annual Meeting of stockholders of Farm Bureau Life Insurance Company of Missouri will be held at Tan-Tar-A Lodge, Osage Beach, Missouri, at 1:30 p.m., Monday, December 4, 1978, to take action on the following mat-

NOTICE OF ANNUAL MEETING

The 15th Annual Meeting of the stockholders of Missouri Agricultural Marketing Association, Inc., will be held at Tan-Tar-A Lodge, Osage Beach, Missouri, at 1:30 p.m., Monday, December 4, 1978, to take action on the following matters:

1. Reports of Officers and Committees.
2. Election of Directors.
3. All other business as may properly come before the meeting or any recessed session thereof.

Dated this 1st day of November, 1978
Lowell Mohler, Secretary

Rolling?

Discussion Meet For Young Farmers

During the 1978 Missouri Farm Bureau Annual Meeting, a Discussion Meet will be held for Young Farmer participants. The topic of this year's meet will be Farm Bureau's role in Energy Research and Development.

The winner of the contest will receive \$50 plus up to \$300 to attend

the AFBF Convention in Miami Beach in January to represent Missouri.

This contest is open to both men and women who must be age 17 to 30 inclusive as of January 7.

A complete brochure on the contest is available to those interested.

Statement of Ownership, Management and Circulation

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7. Owner: Missouri Farm Bureau Federation, 1616 Missouri Blvd., Jefferson City, MO 65101

8. Known Bondholders, Mortgagees, and Other Security Holders owning or holding 1 percent or more of total amount of bonds, mortgages or other securities: None

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10. Extent and Nature of Circulation—Average No. Copies Each Issue During Preceding 12 Months: A. Total No. Copies Printed—70,659; B. Paid Circulation (1) Sales Through Dealers and Carriers, Street Vendors and Counter Sales—none; (2) Mail Subscriptions—69,909; C. Total Paid Circulation—69,909; D. Free Distribution by Mail, Carrier or Other Means (1) Samples, Complimentary, and Other Free Copies—650; (2) Copies Distributed to News Agents, but not sold—none; E. Total Distribution—70,559; F. Office Use, Left-over, Unaccounted, Spoiled After Printing—100; G. Total 70,659.

MISSOURI	
	
NEWS	
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LeRoy Dean Dorman	Director of Field Services & Young Farmers' Activities
Robert McArthur	Director of Policy Development & Local Affairs
1. Russell Miller	Printer: Farm Bureau Merchandising Co., Inc.

Mr. MADIGAN. Let me ask you one question very quickly.

You mentioned that your PCA paid \$40,000 in Federal and State taxes. Because you are organized, chartered, under the Farm Credit Act, do you not enjoy some Federal tax advantages that do not accrue to private insurance agents?

Mr. BULLINGTON. None whatsoever.

Mr. MADIGAN. You have the same tax liability as they would have?

Mr. BULLINGTON. Yes, sir.

Mr. MADIGAN. Thank you very much.

[The following correspondence was submitted :]

October 5, 1979

To: Congressman Ed Jones, Chairman, House Agricultural Subcommittee on Conservation and Credit

Congressman Jones and other members of the committee, my name is Delbert DePriest. I'm a cotton, soybean and wheat farmer in Pemiscot County, Mo., living near Steele, Mo.

I am grateful for the opportunity to respond to this committee about matters affecting the Farm Credit System.

I began farming in 1962 on a part-time basis while I continued to teach school. My first loan was made with the Caruthersville Production Credit Association in February of 1962. I now farm full time and have been borrowing from PCA ever since that \$2,000 loan in 1962. I have had a long-term real estate loan with the Federal Land Bank. I say all this to simply let you know that, from first-hand experience, I'm familiar with the Farm Credit System and the service they provide.

I'm familiar with H.R. Bill 4782 and want to voice my support for the bill. I think it will permit the Farm Credit System to better serve the members and it doesn't cost the taxpayer a penny.

It is my understanding that the Farm Bureau and independent insurance agents are trying to use this bill as a means to forbid the Farm Credit System from continuing to offer insurance services to its members.

This is a right the Farm Credit System already has and my PCA has been doing a very good job in providing the service. If it had not been for the PCA crop hail insurance program, on June 12, 1977, I would have been wiped out by a hailstorm. As it turned out, my crops were adequately covered and, with the \$29,000.00 I collected from the insurance company, I was able to pay my crop loan.

PCA is a service organization and, when I write my insurance coverage, I feel that the folks at PCA are helping me make decisions that are necessary for a successful farming operation. An important element of acquiring insurance through my PCA is the opportunity to be represented by a member of my organization when a claim is being adjusted. Farmers should not be denied the opportunity to purchase insurance as a group.

Thank you again for the opportunity to speak out for my PCA.

Delbert DePriest
 Delbert DePriest
 Rt. 3, Box 317
 Steele, Mo. 63877

October 5, 1975

To: Congressman Ed Jones, Chairman, and the House Agricultural Subcommittee on Conservation and Credit

Subject: HR Bill 4782 to Amend the Farm Credit Act of 1971

Congressman Jones and other members of the committee, my name is Winston Harris and I live on a farm near Senath, Missouri, in Dunklin county. I appreciate the opportunity to offer this response to the committee on a subject that is so vital to the Farm Credit System.

I have been a PCA member and a FLBA member since 1955. I have farmed all my life and, without the assistance of these two great organizations, I certainly could not have accomplished what I have. I feel like I know the Farm Credit System reasonably well, since I have served several years on the FLBA board and am presently serving on the Production Credit board, having been a PCA board member since 1961.

I think HR Bill 4782 is a good piece of legislation that will directly benefit the marketing of all farmers. Anytime the Farm Credit System is strengthened through legislation or other means, other farmers benefit as well as members of the Farm Credit System, through increased competition and service. With this point in mind, I would like to express my serious concern over the efforts being generated by independent insurance groups, as well as Farm Bureau and others, to add an amendment to the bill that would prohibit PCAs and FLBAs from offering any insurance services to their members. This would be a giant step backwards and would remove a right that was given to the Farm Credit System in the 1971 Farm Credit Act.

I participate in both the crop hail insurance program and the collateral insurance program and can assure you the insurance services are handled in a highly professional manner. The Farm Credit law is very rigid about the manner in which insurance services are to be administered and rigid also in the fact that no Farm Credit employee can earn or accept any kind of commission from these services. The agents who complain the loudest are the ones that benefit from the commissions and promotional gifts offered by the insurance companies. PCAs offer it simply as a service and a protection to their borrowing members. This is as it should be.

All we ask is that, when you consider the requests of the special interest groups that I have mentioned above, you will realize that, in approving the request, the ultimate loser would be the American farmer.

Again, thank you for this opportunity to present my views.

Winston B. Harris
Winston B. Harris
Rt. 2
Senath, Missouri 63876

Mr. MADIGAN. Mr. James Putman, president of the Tennessee Farm Bureau, from Columbia, Tenn.

STATEMENT OF JAMES PUTMAN, PRESIDENT, TENNESSEE FARM BUREAU FEDERATION, MEMPHIS, TENN.

Mr. PUTNAM. Thank you, Mr. Chairman. First, I have been a farmer all my life, and second, president of the Tennessee Farm Bureau Federation, and I'm also a member of the American Farm Bureau board of directors. I'm here to present a statement by the American Farm Bureau Federation. We do appreciate this opportunity to comment on H.R. 4782, a bill to amend the Farm Credit Act of 1971.

Many Farm Bureau members and several Farm Bureau affiliated cooperatives finance their credit needs through units of the cooperative farm credit system. Most farmers know these institutions as their local production credit associations, or PCA's, Federal land bank associations, or district banks for cooperatives.

H.R. 4782 includes a series of amendments to the Farm Credit Act of 1971 which are being proposed by the farm credit system and the Farm Credit Administration, a Government regulatory agency.

Before we make specific comments on this bill, we would like to outline the steps that we are undertaking to obtain grassroot input into consideration of these issues raised by this bill.

Farm Bureau has developed a condensed summary of the various farm credit amendments proposed in H.R. 4782 for the use of county farm bureaus during local policy development and county annual meetings.

We have also sent to all of the State farm bureaus copies of a more detailed summary of the amendments, along with some staff observations and questions regarding the implications of the proposed amendments. This policy development process will not be finished until the upcoming AFBF annual meeting in January 1980.

Since the farm credit system is so important to the entire agricultural economy, we urge the committee to allow this issue to be completely reviewed at the State and county level by the farmers and cooperative managers who are dependent upon the system prior to the markup.

Because we do not have a firm or final position on this proposed bill at this time, we would like to utilize this opportunity to focus this committee's attention on several of the proposed amendments and suggest one additional amendment on which the Farm Bureau does have a clear policy at this time.

I have several of these. You have them in your file. With your permission I'll just let you view them and not go through the entire list. I will present the one that we have a policy on, if that meets with your approval.

Now, this amendment does appear to be technical in nature and we just heard it discussed prior to my appearance here this morning, or the other aspect of it; and this is our position in regard to this particular amendment.

This topic which we would like to bring to the attention of this committee is the need for additional clarifying language in the stat-

utes to carry out the intent of Congress, as set forth in the report of the 1971 Farm Credit Act with reference to the sale of collateral insurance by the farm credit system.

We have been told by State farm bureaus in the three pilot farm credit districts which have conducted trial collateral insurance programs that farm credit system institutions are not following the directive of Congress as expressed in the reports on the 1971 Farm Credit Act.

We have been made aware of cases where farmers felt intimidated by Production Credit Association offers to provide insurance coverage at the time loans were requested.

Whether this practice is widespread or isolated, it is inexcusable and all the more reason why such an environment for intimidation, either real or perceived, should not be allowed to exist.

The policy that the Farm Bureau has and it's been developed through the grass roots organization, as you probably are familiar with, recommend that:

The farm credit system not offer financially related services where adequate services are available to borrowers from other established sources. We will propose changes in farm credit law that will prohibit cooperative farm credit institutions from selling property and casualty insurance.

We have met with the Farm Credit Administration and representatives of the various farm credit districts, which have been participating in the collateral insurance pilot program. We have been unable to find any justification for their involvement or any demonstration of need, which we understand was to have been a prerequisite for the establishment of the program.

We urge the Congress to prohibit the farm credit system's operation of those programs because the system has never been able to demonstrate the need for the program or the professional skill to market it in a way which will not offend or intimidate farmer borrowers.

Now, in connection with this, and since there was some additional explanation of this, I started these remarks today and I would like to reiterate it: That we have the greatest respect and in our State—although this is a statement from the American Farm Bureau Federation—although in our State we have the greatest respect for all the farm credit systems.

We work with them, we like them, we think they have done an outstanding job. They have recently, and in the farm credit system nationally, have taken the view of providing collateral insurance. We think they are designed professionally and do an outstanding job in meeting the needs that they were designed for; that is, to serve in the farm credit area.

In some areas, some of the insurance companies have been designed to provide these kind of needs, and we feel like that the expertise is better there than it is in the farm credit system.

We do not feel like even insurance people or professional people would be able to supply the needs in agriculture production nearly as efficiency as production credit, as it relates to where farmers are concerned.

So these are our reasons for it.

The other proposals that are in the bill, which is in the total report, I thought maybe it best not to take your time with it today.

We are merely asking for an extenuation of time, to postpone this bill until we can go to the farmers and determine the actual desires as it relates to these amendments to the Farm Credit bill.

Mr. MADIGAN. First of all, let me thank you for coming and testifying. I'm confident that the subcommittee will not be through with its work before the time that you have mentioned in your testimony here.

I should think it almost a certainty that we would still have this bill in subcommittee in January of next year, because the subcommittee does have other work that it has yet to complete. So I would not expect that we would be marking this bill up before January of next year.

Mr. PUTNAM. We have no position here, because we get our policy, as I hope you would understand, from the farmers, go through the process, and these amendments to it, we just need more time to study it before we make firm recommendations. But we do make comments to it relative to it in this report.

Mr. MADIGAN. And we appreciate very much your taking the time to do that. Thank you.

[The prepared statement of Mr. Putnam follows:]

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION
BEFORE THE SUBCOMMITTEE ON CONSERVATION AND CREDIT
OF THE HOUSE COMMITTEE ON AGRICULTURE
RE H.R. 4782, "A BILL TO AMEND THE FARM CREDIT ACT OF 1971"

PRESENTED BY
JAMES PUTMAN, PRESIDENT, TENNESSEE FARM BUREAU FEDERATION
AT MEMPHIS, TENNESSEE

OCTOBER 5, 1979

WE APPRECIATE THIS OPPORTUNITY TO COMMENT ON H.R. 4782, "A BILL TO AMEND THE FARM CREDIT ACT OF 1971." MANY FARM BUREAU MEMBERS AND SEVERAL FARM BUREAU-AFFILIATED COOPERATIVES FINANCE THEIR CREDIT NEEDS THROUGH UNITS OF THE COOPERATIVE FARM CREDIT SYSTEM. MOST FARMERS KNOW THESE INSTITUTIONS AS THEIR LOCAL PRODUCTION CREDIT ASSOCIATIONS (PCA), FEDERAL LAND BANK ASSOCIATIONS (FLBA), OR DISTRICT BANKS FOR COOPERATIVES (BC).

H.R. 4782 INCLUDES A SERIES OF AMENDMENTS TO THE FARM CREDIT ACT OF 1971 WHICH ARE BEING PROPOSED BY THE FARM CREDIT SYSTEM AND THE FARM CREDIT ADMINISTRATION (FCA), A GOVERNMENT REGULATORY AGENCY. BEFORE WE MAKE SPECIFIC COMMENTS ON THIS BILL, WE WOULD LIKE TO OUTLINE THE STEPS THAT WE ARE UNDERTAKING TO OBTAIN GRASS ROOTS INPUT INTO THE CONSIDERATION OF THE ISSUES RAISED BY THIS BILL.

FARM BUREAU HAS DEVELOPED A CONDENSED SUMMARY OF THE VARIOUS FARM CREDIT AMENDMENTS PROPOSED IN H.R. 4782 FOR THE USE OF COUNTY FARM BUREAUS DURING LOCAL POLICY DEVELOPMENT AND COUNTY ANNUAL MEETINGS.

WE HAVE ALSO SENT TO ALL OF THE STATE FARM BUREAUS COPIES OF A MORE DETAILED SUMMARY OF THE AMENDMENTS ALONG WITH SOME STAFF OBSERVATIONS AND QUESTIONS REGARDING THE IMPLICATIONS OF THE PROPOSED AMENDMENTS. THIS POLICY DEVELOPMENT PROCESS WILL NOT BE FINISHED UNTIL THE UPCOMING AFBF ANNUAL MEETING IN JANUARY, 1980.

SINCE THE FARM CREDIT SYSTEM IS SO IMPORTANT TO THE ENTIRE AGRICULTURAL ECONOMY, WE URGE THIS COMMITTEE TO ALLOW THIS ISSUE TO BE COMPLETELY REVIEWED AT THE STATE AND COUNTY LEVEL BY THE FARMERS AND COOPERATIVE MANAGERS WHO ARE DEPENDENT UPON THE SYSTEM PRIOR TO MARKUP.

BECAUSE WE DO NOT HAVE A FIRM OR FINAL POSITION ON THIS PROPOSED BILL AT THIS TIME WE WOULD LIKE TO UTILIZE THIS OPPORTUNITY TO FOCUS THIS COMMITTEE'S ATTENTION ON SEVERAL OF THE PROPOSED AMENDMENTS AND SUGGEST ONE ADDITIONAL AMENDMENT ON WHICH WE DO HAVE CLEAR POLICY AT THIS TIME.

THE FIRST MAJOR PROPOSAL WOULD AUTHORIZE THE BANK FOR COOPERATIVES TO BECOME INVOLVED IN "EXPORT-IMPORT FINANCING AND SERVICING AND FINANCING OF EQUIPMENT AND FACILITIES FOR LEASE TO AND DIRECT USE OF FARMER COOPERATIVES."

THIS IS A VERY FAR-REACHING PROPOSAL. INTERNATIONAL BANKING IS A COMPLICATED AND RISKY BUSINESS. THE FACT THAT "OTHER BANKING INSTITUTIONS, INCLUDING U.S. BRANCHES OF FOREIGN BANKS, ALREADY HAVE THE CAPACITY TO RENDER THE RANGE OF NEEDED SERVICES TO THEIR CLIENTS" 2/ CAN BE USED AS AN ARGUMENT AGAINST, AS WELL AS AN ARGUMENT FOR, THIS PROPOSAL.

WE ARE URGING FARM BUREAU MEMBERS TO CONSIDER WHETHER IT IS NECESSARY FOR THE BANKS FOR COOPERATIVES TO INVEST IN FOREIGN FINANCIAL INSTITUTIONS OR SERVICING OPERATIONS TO FULFILL THE EXPORT-IMPORT CREDIT NEEDS OF U.S. FARM COOPERATIVES. ON THE SURFACE AT LEAST, THIS PROPOSAL SEEMS A LONG WAY FROM THE ORIGINAL INTENT AND PURPOSE OF THE FARM CREDIT SYSTEM.

ANOTHER POINT WE ARE URGING OUR MEMBERS TO CONSIDER RELATES TO THE PROPOSAL TO FINANCE EQUITY INVESTORS WHO BUILD FACILITIES OR PROVIDE EQUIPMENT FOR LEASE TO, AND DIRECT OPERATION BY, FARMER COOPERATIVES. AGAIN, ON THE SURFACE THIS SEEMS LOGICAL AND IN LINE WITH GOOD MANAGEMENT PRACTICES AND SOUND BUSINESS PRINCIPLES BUT, LIKE MANY OTHER GOOD IDEAS, THIS AUTHORITY IS EXTREMELY VAGUE AND COULD BE ABUSED IF NOT PROPERLY CONTROLLED.

WE ALSO QUESTION THE EXTENT TO WHICH THE BANKS FOR COOPERATIVES SHOULD BE INVOLVED IN MONETARY EXCHANGE TRANSACTIONS AND OTHER SERVICES WHICH ARE NOW BEING PROVIDED COMPETENTLY BY EXISTING COMMERCIAL BANKING INSTITUTIONS.

THE PROPOSAL TO AMEND THE 1971 FARM CREDIT ACT TO PERMIT FEDERAL LAND BANKS TO MAKE LOANS IN EXCESS OF 85 PERCENT OF APPRAISED VALUE WOULD APPEAR TO MOVE THE FARM CREDIT SYSTEM TOWARD A MORE COMPLEX POSITION WITH THE NEW FARMERS HOME ADMINISTRATION AND SMALL BUSINESS ADMINISTRATION GUARANTEED LOAN PROGRAMS. IN FACT, THIS IS THE INTENT WE WOULD SUGGEST SPECIFIC LANGUAGE WHICH WOULD LIMIT FEDERAL LAND BANK LOANS, GUARANTEED BY THE FMHA OR SBA OR STATE PROGRAMS, TO 90 PERCENT OF THE APPRAISED VALUE OF THE REAL ESTATE SECURITY.

FMHA HAS A LIMITED RESOURCE PROGRAM FOR BEGINNING FARMERS, WHICH CAN ACCOMMODATE THE NEEDS OF ENTRY-LEVEL FARMERS WHO MAY NOT BE ABLE TO MEET THE 10-PERCENT EQUITY REQUIREMENTS OF THE FEDERAL LAND BANKS. MOST ENTRY LEVEL FARMERS SHOULD BE ABLE TO MEET THE 10-PERCENT EQUITY REQUIREMENTS OR THERE MAY BE SOME QUESTION AS TO THEIR ABILITY TO WITHSTAND ADVERSE PRODUCTION OR MARKETING CONDITIONS.

THE COOPERATIVE ELIGIBILITY AMENDMENT WOULD LOWER THE PERCENTAGE OF FARMER-VOTERS IN COOPERATIVES ELIGIBLE TO BORROW FROM THE BANKS FOR COOPERATIVES FROM 80 PERCENT (70 PERCENT FOR RURAL UTILITY CO-OPS) TO 60 PERCENT.

THIS HAS BEEN A CONTROVERSIAL MEASURE INSIDE THE FARM CREDIT SYSTEM, AND IT HAS SPECIAL IMPLICATIONS FOR FARMERS IN THE MORE DENSELY POPULATED AREAS OF THE UNITED STATES. TRADITIONALLY, WHENEVER A FARMER COOPERATIVE BECOMES TOP-HEAVY WITH NONFARMERS THE NON-VOTING NONFARMERS TEND TO RECEIVE SPECIAL CONSIDERATION, OFTEN AT THE EXPENSE OF FARMERS. A GOOD EXAMPLE OF THIS TYPE OF PROBLEM OCCURS WHEN A TRADITIONAL FARM COOPERATIVE INVESTS IN A TOWN AND COUNTRY STORE, WHICH HAS LIMITED UTILITY TO FARMERS BUT A HIGH UTILITY TO RURAL NONFARMERS AND SUBURBANITES, INSTEAD OF ALLOCATING ITS RESOURCES TO A NEW FEED OR FERTILIZER PLANT WHICH MAY NOT YIELD AS HIGH A RETURN ON INVESTMENT.

THE OTHER AMENDMENT WHICH THE FARM CREDIT ADMINISTRATION HAS IDENTIFIED AS A MAJOR CONSIDERATION FROM ITS PERSPECTIVE RELATES TO FLBA AND PCA FINANCING FOR THE PROCESSING AND MARKETING ACTIVITIES OF FARMERS OR AQUATIC BORROWERS. THIS PROPOSED AMENDMENT HAS SIGNIFICANT IMPLICATIONS FOR EXISTING AND FUTURE FARMER COOPERATIVES. FARMERS AND AQUATIC BORROWERS WOULD BE ABLE TO RECEIVE FARM CREDIT SYSTEM FUNDING FOR NONCOOPERATIVE MARKETING AND PROCESSING ENTERPRISES. THE ELIGIBILITY REQUIREMENTS OF THIS PROPOSAL SEEM TO BE VERY AMBIGUOUS. AT A SUBSEQUENT TIME, WE MAY URGE THE CONGRESS TO SPECIFY A MINIMUM PERCENTAGE OF THE PRODUCTION TO BE PROCESSED OR MARKETED THROUGH A FACILITY WHICH MUST BE PRODUCED BY THE BORROWER IF THE FACILITY IS TO BE FINANCED BY A FARM CREDIT BANK.

THERE ARE SEVERAL OTHER PROPOSALS IN THE PACKAGE WHICH ARE NOT CONSIDERED BY THE FARM CREDIT SYSTEM TO BE MAJOR PROPOSALS BUT WHICH APPEAR TO US TO BE EXTREMELY IMPORTANT.

ONE OF THESE PROPOSALS WOULD AUTHORIZE ALL FARM CREDIT SYSTEM INSTITUTIONS TO ENTER INTO GENERAL LOSS SHARING AGREEMENTS WITH OTHER FARM CREDIT SYSTEM INSTITUTIONS. LOSS SHARING AGREEMENTS COULD INCREASE THE POSSIBILITY THAT INDIVIDUAL INSTITUTIONS MIGHT MAKE RISKY LOANS. THE PROPOSED AMENDMENTS TO AUTHORIZE LOSS SHARING AGREEMENTS BETWEEN AND AMONG INSTITUTIONS IN THE FARM CREDIT SYSTEM WOULD DISTRIBUTE THE RISK OVER THE ENTIRE SYSTEM. THIS COULD MEAN THAT, IF THE EXPORT FINANCING AMENDMENT IS ADOPTED, THE RISKS INVOLVED IN

THIS ACTIVITY WOULD BE REFLECTED IN THE COSTS OF BORROWING FARM OPERATING AND OWNERSHIP CAPITAL. THIS "AVERAGING" OF RISKS AND THE COSTS OF MONEY ASSOCIATED WITH RISKS WOULD LIKELY LOWER THE COST OF MONEY TO SOME SEGMENTS OF THE FARM CREDIT SYSTEM AND RAISE THE COST OF MONEY TO OTHERS.

ANOTHER MAJOR PROPOSAL, FROM OUR STANDPOINT, WOULD AUTHORIZE THE FCA TO CHARTER CORPORATIONS TO PERFORM SERVICE AND FINANCE FUNCTIONS FOR FARM CREDIT INSTITUTIONS. THIS MAY BE ONE OF THE MOST CONTROVERSIAL PROVISIONS IN THE FCA PACKAGE.

WE UNDERSTAND FROM SOME OF THE FARM LEADERS WHO SERVED ON THE FARM CREDIT STUDY COMMISSION IN 1970, THAT SOME STAFF PEOPLE IN THE FARM CREDIT SYSTEM RAISED THE ISSUE OF WHETHER FCA SHOULD DEVELOP ITS OWN CREDIT LIFE INSURANCE COMPANY. FARM BUREAU, ALONG WITH OTHER FARM ORGANIZATIONS, OPPOSED THE IDEA AT THAT TIME AND WILL LIKELY OPPOSE ANY AUTHORIZING LEGISLATION WHICH WOULD ALLOW FCA TO CHARTER INSURANCE COMPANIES OR OTHER CORPORATIONS TO PROVIDE SERVICES TO BORROWERS WHICH CAN BE PROVIDED BY OTHER PRIVATE SECTOR SOURCES. WE PROBABLY WOULD NOT OBJECT TO A SERVICE CORPORATION THAT IS RESTRICTED TO SUCH THINGS AS THE PERFORMANCE OF BOOKKEEPING AND COMPUTER SERVICES FOR THE VARIOUS UNITS OF THE FARM CREDIT SYSTEM.

THE FARM CREDIT SYSTEM SHOULD BE GUIDED BY ITS ORIGINAL CHARTER AND FULFILL ITS COMMITMENT TO MEET THE CREDIT NEEDS OF FARMERS AND RANCHERS RATHER THAN SEEKING TO BUILD AN EMPIRE OF FARM SERVICE BUSINESS COMPANIES.

THE FARM CREDIT SYSTEM IS ALSO PROPOSING BROADER AUTHORITY FOR LOANS TO AQUATIC PRODUCERS AND COOPERATIVES. IN SOME FARM CREDIT DISTRICTS THE BANKS HAVE LIMITED EXPERIENCE IN MAKING AND SUPERVISING AQUATIC LOANS. IN ORDER TO AVOID JEOPARDIZING THE EQUITY POSITION OF INDIVIDUAL ASSOCIATIONS AND DISTRICT BANKS, WE MAY URGE CONGRESS TO IMPOSE A LIMIT ON THE PERCENTAGE OF TOTAL LOANS OUTSTANDING THAT ANY ONE ASSOCIATION OR BANK CAN HAVE IN AQUATIC ENTERPRISE LOANS.

THE FARM CREDIT SYSTEM IS PROPOSING AN AMENDMENT TO PROVIDE THAT ONLY THE FEDERAL TRUTH-IN-LENDING LAW APPLIES TO THE SYSTEM. THE PURPOSE IS TO INSURE THAT ANY AMENDMENTS RELAXING OR REMOVING FEDERAL REQUIREMENTS WILL NOT BE OFFSET BY STATE LAWS. FARM BUREAU HAS SUGGESTED IN THE PAST THAT ALL AGRICULTURAL BUSINESS LOANS SHOULD BE EXEMPTED FROM "TRUTH-IN-LENDING. HOWEVER, FARM BUREAU HAS NOT ENDORSED A BLANKET EXEMPTION FROM "TRUTH-IN-LENDING FOR THE FARM CREDIT SYSTEM, WHICH ALSO MAKES CONSUMER-TYPE LOANS.

ANOTHER AMENDMENT WOULD CLARIFY AND REAFFIRM THE CONTENTION THAT LENDING BY THE FARM CREDIT SYSTEM IS EXEMPT FROM STATE USURY LAWS. AGAIN, THERE IS A QUESTION OF WHETHER FARM CREDIT SYSTEM INSTITUTIONS SHOULD BE SUBJECT TO STATE LAWS. A CASE CAN BE MADE FOR EXEMPTING FARM CREDIT INSTITUTIONS FROM STATE USURY LAWS; HOWEVER, THE FACT THAT FCA HAS CLAIMED TO HAVE SUCH AN EXEMPTION IS A SORE POINT WITH MANY PRIVATE LENDERS. AN EXEMPTION FROM STATE USURY LAWS GIVES THE SYSTEM, A DISTINCT ADVANTAGE OVER SOME OF ITS COMPETITORS. ON THE OTHER HAND, NEITHER FARM CREDIT SYSTEM INSTITUTIONS NOR OTHER LENDERS CAN BE EXPECTED TO LEND MONEY AT INTEREST RATES BELOW THE COST OF MONEY TO THE INSTITUTION.

ANOTHER PROPOSAL WOULD REQUIRE THAT LISTS OF CANDIDATES FOR THE POSITION OF ELECTED DISTRICT DIRECTOR EACH CONSIST OF TWO NOMINEES RECEIVING THE HIGHEST NUMBER OF VOTES RATHER THAN THREE NOMINEES AS IS REQUIRED AT PRESENT. EACH COMPONENT OF FARM CREDIT DISTRICTS IS ALLOTTED TWO SEATS ON THE DISTRICT BOARD. IN ADDITION, THE GOVERNOR APPOINTS ONE ADDITIONAL MEMBER. THIS AMENDMENT WOULD NOT AFFECT THE ALLOCATION OF SEATS ON THE BOARD, BUT WOULD CHANGE THE REQUIREMENT THAT THERE BE THREE NOMINEES FOR THE ELECTORAL SEATS HELD BY EACH DISTRICT BANK TO A REQUIREMENT FOR TWO NOMINEES.

THE REMAINING MAJOR NONTECHNICAL SET OF AMENDMENTS PROPOSED BY THE FCA AND THE SYSTEM WOULD GIVE THE FARM CREDIT BOARD GREATER DISCRETION IN ESTABLISHING FCA PERSONNEL POLICIES AND ALLOW FOR

GREATER "PORTABILITY" OF SICK LEAVE AND RETIREMENT CREDITS BETWEEN SYSTEM BANKS AND THE CIVIL SERVICE. WE WOULD LIKE TO KNOW WHAT THESE PROPOSALS ARE EXPECTED TO COST MEMBER-BORROWERS BEFORE WE ENDORSE THEM.

THE OTHER AMENDMENTS APPEAR TO BE TECHNICAL IN NATURE.

THE LAST TOPIC WHICH WE WOULD LIKE TO BRING TO THE ATTENTION OF THIS COMMITTEE IS THE NEED FOR ADDITIONAL CLARIFYING LANGUAGE IN THE STATUTES TO CARRY OUT THE INTENT OF CONGRESS, AS SET FORTH IN THE REPORTS ON THE 1971 FARM CREDIT ACT, WITH REFERENCE TO THE SALE OF COLLATERAL INSURANCE BY THE FARM CREDIT SYSTEM.

WE HAVE BEEN TOLD BY STATE FARM BUREAUS IN THE THREE PILOT FARM CREDIT DISTRICTS WHICH HAVE CONDUCTED TRIAL COLLATERAL INSURANCE PROGRAMS THAT FARM CREDIT SYSTEM INSTITUTIONS ARE NOT FOLLOWING THE DIRECTIVE OF CONGRESS AS EXPRESSED IN THE REPORTS ON THE 1971 FARM CREDIT ACT. WE HAVE BEEN MADE AWARE OF CASES WHERE FARMERS FELT INTIMIDATED BY PRODUCTION CREDIT ASSOCIATION OFFERS TO PROVIDE INSURANCE COVERAGE AT THE TIME LOANS WERE REQUESTED. WHETHER THIS PRACTICE IS WIDESPREAD OR ISOLATED, IT IS INEXCUSABLE AND ALL THE MORE REASON WHY SUCH AN ENVIRONMENT FOR INTIMIDATION, EITHER REAL OR PERCEIVED, SHOULD NOT BE ALLOWED TO EXIST.

FARM BUREAU MEMBERS SPOKE TO THIS PROBLEM AT THE 1979 FARM BUREAU ANNUAL MEETING AS FOLLOWS:

"WE RECOMMEND THAT THE FARM CREDIT SYSTEM NOT OFFER FINANCIALLY RELATED SERVICES WHERE ADEQUATE SERVICES ARE AVAILABLE TO BORROWERS FROM OTHER ESTABLISHED SOURCES. WE WILL PROPOSE CHANGES IN THE FARM CREDIT LAWS THAT WILL PROHIBIT COOPERATIVE FARM CREDIT INSTITUTIONS FROM SELLING PROPERTY AND CASUALTY INSURANCE."

WE HAVE MET WITH THE FARM CREDIT ADMINISTRATION AND REPRESENTATIVES OF THE VARIOUS FARM CREDIT DISTRICTS, WHICH HAVE BEEN PARTICIPATING IN THE COLLATERAL INSURANCE PILOT PROGRAM. WE HAVE BEEN UNABLE TO FIND ANY JUSTIFICATION FOR THEIR INVOLVEMENT OR ANY DEMONSTRATION OF NEED, WHICH WE UNDERSTAND WAS TO HAVE BEEN A PRE-REQUISITE FOR THE ESTABLISHMENT OF THE PROGRAM.

WE URGE THE CONGRESS TO PROHIBIT THE FARM CREDIT SYSTEM'S OPERATION OF THOSE PROGRAMS BECAUSE THE SYSTEM HAS NEVER BEEN ABLE TO DEMONSTRATE THE NEED FOR THE PROGRAM OR THE PROFESSIONAL SKILL TO MARKET IT IN A WAY WHICH WILL NOT OFFEND OR INTIMIDATE FARMER-BORROWERS.

THANK YOU VERY MUCH FOR THE OPPORTUNITY TO PRESENT THESE COMMENTS. WE HOPE THE CONGRESS WILL DELAY FINAL ACTION ON THIS ISSUE UNTIL AFTER THE FIRST OF THE YEAR AT WHICH TIME FARM BUREAU AND OTHER FARM ORGANIZATIONS WILL HAVE MORE FIRM RECOMMENDATIONS TO MAKE TO YOU.

1/ "DIGEST OF BANK FOR COOPERATIVES TASK FORCE REPORT," BY RICHARD BOWNEY, PRESIDENT, COLUMBIA BANK FOR COOPERATIVES; BURGEE ANDALL, PRESIDENT, ST. PAUL BANK FOR COOPERATIVES; JACK HUGHES, PRESIDENT, HOUSTON BANK FOR COOPERATIVES.

2/ IBID.

Mr. MADIGAN. Ladies and gentlemen, because of people having airplanes to catch and other commitments, we have been going out of order here. I think perhaps we have to do that one more time.

So that we don't preclude anybody having the ability to testify, I'm going to name the next three witnesses.

They are Mr. Herbert Rone, Mr. Jeff Wade, and Mr. Parnell Garrigan, followed then by Mr. Hugh Garrigan and Mr. Lucian Isbell.

Now, if any of those gentlemen that I've named needs to go ahead of any of the other gentlemen that I've named because of having to catch an airplane or something like that, if you'll identify yourself, we'll be glad to accommodate you.

Otherwise, our next witness is Mr. Herbert Rone.

**STATEMENT OF HERBERT RONE, FARMER, PORTAGEVILLE, MO.;
CHAIRMAN OF THE BOARD, CARUTHERSVILLE PRODUCTION
CREDIT ASSOCIATION**

Mr. RONE. Congressman, I appreciate this opportunity to make this short presentation.

My name is Herbert Rone. I'm a cotton, soybean, and grain farmer in Pemiscot County, Mo. I want to thank you and the committee for allowing this time for me to present my views on the farm credit legislation. I'm chairman of the board of the Caruthersville Production Credit Association and we have discussed the House bill 4782 and feel that it's a good bill. We think the bill includes some much needed legislation, especially as it affects the bank of cooperatives.

The export financing provision of the bill is a vital part. This part of the legislation would certainly benefit every farmer in the United States whether or not he was a cooperative member. Any legislation that will help to promote the expansion of U.S. agricultural exports has to be good for the farmer and good for the Nation's economy.

While endorsing the farm credit legislation, we are disturbed by the attitude of the independent insurance groups, along with the farm bureau. Their desire to add an amendment to the legislation that would forbid the sale of all insurance by the farm credit system is disturbing.

H.R. bill 4782 doesn't even mention insurance. Some of the insurance programs our PCA offers have been available for over 25 years and now we find a special interest group wanting to do away with them.

The farm credit system is one of the greatest success stories ever created by the Congress, and it's because the system is designed to serve the American farmer.

Every new service offered by the farm credit system causes someone else to do a better job, whether this service be insurance, farm records, or credit.

That's the American way and it's as it should be.

I'm sure this committee and Congress will consider this bill on its own merits and not be unduly influenced by a group that wants to do away with some of the services that have helped make the farm credit system what it is today.

Thank you for allowing me to present these views.

Mr. MADIGAN. Thank you, Mr. Rone. We especially appreciate your brevity.

Mr. Jeff Wade, from Bragg City, Mo., will be the next witness.

STATEMENT OF JEFF WADE, JR., FARMER, BRAGG CITY, MO.

Mr. WADE. Congressman Madigan, I'm certainly glad to be here. My name is Jeff Wade, Jr.

I'm a cotton farmer and a soybean and wheat farmer from Pemiscot and Dunkin Counties, Mo. I have nothing against Arkansas, don't get me wrong, but I would like to place it that I am from the Boot Heel of Missouri.

There might be one thing that's added there. I do live in the Boot Heel of Missouri. We've been called Laplanders sometimes, because we're the part of Missouri that laps over into Arkansas, so some of them just call us "Laplanders." So I'll answer from either one of those descriptions.

I am presently farming 1,270 acres and I live 7 miles east of Kennett. Since 1960 I've been a member of the Caruthersville Production Credit Association. Farming is the only source of my livelihood, and so I feel like I have a big interest in this farm credit bill, because in farming today I certainly use a lot of credit.

I'm interested in this bill, but not as some of them are. I'm interested as one that receives the benefits of this bill.

I want you to know I have a great deal of respect for my PCA and for the fine job that they are doing in my area serving the farmers.

I'm certainly pleased to have this opportunity to come before you this morning and tell you about some of the good things that PCA and the other lending agencies are doing in my area.

This Farm Credit Act touches on all segments of the farming industry. Being a member of the PCA for the past 19 years, as I've stated, and I'm also presently on the board of the Missouri Farmers Association, I can certainly see that this bill, H.R. 4782, and amendments, will benefit a lot to agriculture.

I'm a firm believer that anything that benefits agriculture in the end going to benefit the consumer. So I'm saying that this bill will not only benefit the farmers in this Nation, but it's going to benefit everyone that lives in this Nation.

So I'm certainly proud to be here this morning to talk about it and tell you some of the benefits of it.

One of the things now that concerns me that I want to touch on after I've already told you about all the good parts of this bill is the fact that some of the independent insurance agencies and Farm Bureau that's just been up before me a few minutes ago are trying to attach an amendment on a good bill that will take away something that we feel like that we need.

I as a farmer need this insurance service that PCA is giving, because my PCA in Pemiscot County and Dunklin County, Mo., first offered this collateral insurance in 1976, and I was one of the first farmers in our area that got into this program.

In 1977, I had a self-propelled cottonpicker that caught fire and burned, and this spring I had a tenant house that caught fire and burned; and thanks to the Caruthersville Production Credit Association, their insurance department, I was fully insured in this.

It's been my experience the next worst thing to being no insurance at all is to be underinsured. I feel like that PCA is able to go over my loss which they do each year. Sometimes I wonder if it's necessary to over it that close, but they do.

Anyway, they go over that loan each year and they know my needs as far as credit, and they know my needs as far as insurance, and they point those out to me.

As I've stated, I've been in this program ever since it was first initiated in my Production Credit Association. I can honestly say I have no complaints whatsoever.

I do not feel like that I have been pressured in any way, not in any way at all, in order to take these insurance policies that I have with them.

I feel like that they have done me a service by being able to offer this insurance to me at this place where I borrow my money, where there couldn't be any closer relationship.

I believe that every organization that I know of, whether it be a labor union, a group of Federal employees, or whatever, are offered a group insurance.

Congressman, I can't see why that those of us that are farmers cannot enjoy this as we are now, and keep on enjoying it.

I want to relate something that was said also earlier this morning about the benefits coming back to the farmer. You know, that's one of the things that I like about this. Some of the benefits do come back to the farmer.

I went over my records and went over the records with them, and I found out that during the last 3 years by my Caruthersville Production Credit Association offering these services, that they've been able to cut off about a half a percent of the interest that they've charged me on my money.

Just giving an illustration, in 1978, they would offer to either give back to me or save or any way you want to put it, \$554. You know, when I'm paying 11 percent interest and I'm paying nearly 90 cents a gallon for diesel, I can certainly use that \$554.

I can't see why that any insurance agency or any other so-called farm organization would object to my PCA doing this business with me, because these other insurance groups—and I have no complaints about that whatsoever—they can sell their insurance to anybody that walks up and down the street or anybody that comes in or anybody they go see.

My Caruthersville Production Credit Association can only sell that insurance to those of us that borrow money from them and those of us that want to buy it from them.

Just because I borrow money from them, if I don't want to buy their insurance, it doesn't have anything whatsoever to do with me borrowing my money.

If it did, all in the world I would have to do is to make the complaint, and I'm certain I could have that corrected; and I have no reason to make any complaint at this time.

I hope this Congress will consider what we have, what we have been able to enjoy, and the good parts about this bill and pass it; but I would certainly urge you to not let some amendments be attached onto this that will hurt me as a farmer in this Nation.

I want to thank you for this opportunity of letting me come and discuss these things with you. Any time that I can answer any other questions, I'd certainly be glad to do so. Thank you.

Mr. MADIGAN. Thank you very much, Mr. Wade. We will be having a panel of the witnesses after the last witness has testified, and we

be having a question-and-answer period at that time. I hope that you will be able to stay and take part in that.

Mr. Parnell Garrigan from Hickman, Ky.

STATEMENT OF PARNELL GARRIGAN, HICKMAN, KY.

Mr. GARRIGAN. Mr. Chairman and other members of the committee, first, I'm just a dirt farmer. I've farmed all my life. I live over in Kentucky, but I'm on the State line, both in Kentucky and Tennessee.

I've been a member of the production credit almost since production credit started. I could give you a great long testimony of what production credit has done for me and my family, but I won't take that time now.

Mr. MADIGAN. I do have to tell you, Mr. Garrigan, that when a politician is approached by somebody that says they are just a country lawyer or just a dirt farmer, that their ears really perk up.

Mr. GARRIGAN. That's all I am and all I've ever done.

I served on the production credit board for about 27 years, and about 23 or 24 of that I was on the executive committee; and so I know quite a bit about the inner workings of just the local association.

The point that I'd like to bring up today is we need a little extension on the time. Years back there was an objection to the 3- and 5-year loans.

These young people trying to get started, which we have a lot of in our area. Not a lot, but they are having trouble being financed, as expensive as things are.

So we feel like—or I feel like—I have a son farming with me, and with machinery and land and all the input, but the main thing they need more time on is like to get into specialized enterprises, such as confined cattle operations or dairies or those things need to be set up on a little longer term.

Maybe not too long, but we think they need to be extended, and for that reason, that's my main point to bring up that as a member.

Mr. MADIGAN. We appreciate that very much and I think that uniformly, everybody that has been here yesterday and today has been interested in that.

Mr. Garrigan, we hope you will be able to stay and take part in the panel when we get through here.

We have another Garrigan, Mr. Hugh Garrigan, from Union City, Tenn.

STATEMENT OF HUGH GARRIGAN, JR., FARMER, UNION CITY, TENN.; PRESIDENT, TENNESSEE SOYBEAN ASSOCIATION

Mr. MADIGAN. Is Union City close to Tiptonville, Tenn.?

Mr. GARRIGAN. About 25 miles east.

Mr. MADIGAN. My father used to take me fishing down there when I was a little boy.

Mr. GARRIGAN. Well, they still catch fish there.

Thank you. Mr. Chairman, I have been following that other Garrigan man around for 62 years because I don't know any better, and so I'm up here. He said he's a dirt farmer and so that's my livelihood, too.

I'm going to stress the same point mostly that he did on our young men coming along who need additional time with this financing.

I am Hugh Garrigan, Jr., a farmer. I'm also president of the Tennessee Soybean Association.

I live in Obion County and I farm in Fulton County, Ky.

We live about 2 miles in Tennessee. My brother lives just across the State line in Kentucky. Then we have another brother up the road who lives in Tennessee.

It is very important, as we see it, and our sons farm with us, that these young men be given this consideration by your committee, and we wish for you to get the bill enacted without a lot of crippling amendments.

I am mindful of the problems facing farmers today in the operation of a modern economical size farming unit. The cost of equipment needed to produce a crop of soybeans large enough to support a farm family after expenses are paid is well in excess of \$150,000. Many of the large tractors being built today have a useful life well over 10 years, but many farmers, especially young men, are being required to finance such capital purchases for shorter periods of time.

I see the need for a type of loan through our Production Credit Association with a 10-year or longer maturity that will ease the burden on all farmers using this type credit for capital purchases.

I'm going to make my speech very short because we've had lots of long speeches this morning.

Thank you for allowing me to appear here.

Mr. MADIGAN. Thank you very much for coming. We hope you'll stay and take part in the panel.

Mr. Lucian Isbell?

STATEMENT OF LUCIAN H. ISBELL, FARMER, HICKMAN, KY.

Mr. ISBELL. Mr. Chairman, members of the committee, I'm also from Kentucky and it looks like we Kentuckians are having a little problem with this short-term interest—short-term credit and high interest.

There is a real concern, I think, which has been stated, that the young people are having a little problem with this inflation and not having a long enough period of time to pay their loans off.

I'll give you a little of my history. I'm Lucian H. Isbell, a farmer of Hickman, Ky. During the past 25 years I have served agriculture in Kentucky in various capacities; recently as vice president of the Kentucky Farm Bureau Federation and also the insurance companies; and for the past 8 years, a Farm Bureau appointee to the Kentucky State Fair Board.

I'm interested in seeing a type of agriculture carried on that will provide a standard of living for the farmers of our area and the State and the Nation that is equal to other segments of our society. I realize that there is a tremendous investment in the livestock, equipment, and land needs today to generate sufficient income to meet all expenses and leave a net profit adequate for farm family expenses. Very few young men are able to farm today without using large amounts of credit. There are numerous sources of credit for farmers, but more especially

that type of short-term credit that is used in crop and livestock production and is repaid on an annual or shorter period.

It is my opinion that intermediate type credit should have an extended repayment plan that allows ample time for large capital purchases to be amortized over a period of up to 10 years.

Modern credit plans are needed to finance modern farmers and I ask your committee to support legislation that will update the present farm credit laws.

I appreciate this opportunity to appear before you.

Mr. MADIGAN. Mr. Isbell, we appreciate your coming over and hope that you will be able to stay and be a part of our panel.

Our next witness is Mr. Jack McNeil, the president of the Independent Insurance Agents of Arkansas.

The next gentleman then will be Mr. Earl Taute.

The next witness then would be Mr. William Bailey; then Mr. Don Sands; then Mr. Roscoe Gibson; and I believe then we would be almost through. We might have one more witness after that.

Mr. Jack McNeil would be our next witness now.

STATEMENT OF BERT SIGSBEE, RECTOR, ARK., ON BEHALF OF JACK McNEIL AND THE INDEPENDENT INSURANCE AGENTS OF ARKANSAS

Mr. SIGSBEE. Congressman, Mr. Jack McNeil was unable to be here, and I'm appearing in his behalf and in behalf of the Independent Insurance Agents of Arkansas. My name is Bert Sigsbee, Rector, Ark.

We have filed already for the record two statements on the position of the Independent Insurance Agents of Arkansas regarding the sale of insurance by the PCA's. The gentleman representing the Independent Insurance Agents of Tennessee stated our position so well that I am not going to give all of the statement that I have prepared. I'm only going to give parts of it because it would be repetition, and I want to read a small part of what I had prepared.

Independent Insurance Agents of Arkansas fully support the purpose for which a Federal farm credit system was created and, also, our local production credit associations, which are invaluable assets to many Arkansas communities they serve. The Farm Credit Act was established primarily to serve the credit needs of farmers. In our area they are very, very necessary.

Included in the act were regulations which allowed production credit associations to provide related financial services, but only if the need for such services has been established and only on approval of the Farm Credit Administration.

We are concerned because the Farm Credit Administration has not enforced the aforementioned need requirement before authorizing the sale of such insurance in its current pilot projects.

We feel that the PCA's enjoy competitive advantages over unaffiliated insurance agents, because as credit-granting institutions they have the ability to tie the sale of insurance to the extension of credit.

The immense power over credit is the basic reason for the traditional Federal and State policy that banking and commerce should remain separate.

It is our belief that Congress did not and does not intend to change this policy.

The Independent Insurance Agents of Arkansas recommend that the current Farm Credit Administration pilot projects for PCA insurance activity cease; and, two, that Congress establish clarifying legislation with formal explicit rulemaking procedures for determining a need for FCA insurance activities in specific locations before approving such activities.

That is our official position. I would like to make a few more statements concerning our immediate area.

In our two-county area we have 15 independent and multiple company agencies, 2 Farm Bureau agents, 5 Farmers Insurance Group agents, 5 MFA agents, and 2 State Farm agents.

With this many agents, you have a very, very competitive situation.

The consumer benefits because he has a variety of choices in price and service.

We believe that this same situation is duplicated all over the State and applies to all of the Southern States.

In Arkansas we have 450 independent agencies for 75 counties, and a large number are direct writer agencies.

In Tennessee there are approximately 583 independent agents in 95 counties; in Mississippi, 356 agencies in 82 counties.

With this situation, we cannot see how PCA has been able to justify their entry into the insurance business in Arkansas.

We believe that the independent agents and the other agents in the community have been able to provide for the needs of the farmer.

In our area, our business is probably 50 percent farm business, and you don't stay in business 26 years unless you can provide the services that they need and the protection that they need.

Thank you.

Mr. MADIGAN. Thank you very much.

Mr. Earl Taute?

STATEMENT OF EARL TAUTE, GLASCOW, KY.

Mr. TAUTE. Mr. Chairman, I am Earl Taute from Glasgow, Ky. I came here to represent some 225 farmers in the south-central Kentucky area who are associated with Mamicay [phonetic] Production Credit Association's farm record and business analysis program. Our farmer members are basically in support of House bill 4782, as it appears to be constructive legislation. In addition, they are interested in obtaining legislation that will allow the PCA's to extend payments on certain intermediate type loans from 7 to 10 or more years.

It is this concern that they have asked me to share with you today.

My assigned work area includes activities carried on in PCA's Agrifax program. This program attempts to help the farmer assemble data that can be used for both analysis and planning of his farming operation. The Agrifax function includes providing supporting data for member loan portfolios as needed.

In addition to this activity, the assignment of my staff and myself include activities that are normally carried out by trained loan officers and credit supervisors.

These include consulting with farmer members concerning their plans and problems. Our activities include the areas of cash flow management, financing arrangements and requirements, profitability expectations resulting from certain management decisions, production and marketing analysis, and to some extent business organization.

My staff and I are assigned to work with specific farmers who maintain contractual arrangements with the association similar to the normal Agrifax arrangements. We do not directly originate credit applications. We do work in considerable detail with our clients.

This arrangement allows us to get a clear view of the farmer's financial requirements and plans without having to be restricted by the limitations of any institution.

We would, naturally, try to guide any farmer in his financial planning so that it can conform to farm credit institutions because we hope and feel farm credit is best equipped to handle agricultural credit needs.

We have provided for this committee several exhibits that I will not read in detail, but which should be made a part of the record.

I would like to comment briefly on these exhibits.

Exhibit No. 1, shown on page 2, indicates the problem of maintaining profit margins in agriculture. The profit margin has steadily diminished, due in part to resource costs, such as land, which have historically been priced so that the cash return is less than the current cash loss.

Inflationary expectations are routinely bid into resource costs.

The exhibit also indicates the special problems presented to farmers as they attempt to combat the inflation spiral problems.

It indicates that a farm family in the median income level needs annual net new investment of \$20,000 to \$25,000 just to maintain his family's standard of living.

Improvement through efficiency usually increases these investment requirements.

It is no wonder that farmers are now faced with the reality of perpetual debt. The old desire of farmers to be debt free is now almost totally inconsistent with the need to maintain profitability and living standards.

Exhibit No. 2 found on page 3 focuses on the balance sheets and profitability of today's farmers.

The farm operations included in this sample are made up mostly of full-time farmers between the ages of 30 and 55, who are major producers of food and feedstuffs.

It would not include many of the small or part-time farmers, nor would it include many of the landlord type landowners who have acquired land through inheritance or by investing nonfarm earnings in agricultural investments.

It also would not include those retired individuals who have been able to acquire and pay for land in earlier decades.

This is why this balance sheet is so different from the standard balance sheet of agriculture.

It shows the low earnings in relation to invested assets. It also indicates the liability/net worth ratios these farmers and their lenders have to deal with.

These farmers, ladies and gentlemen, are the farmers who are making America's agriculture so productive. These are the farmers we have to deal with.

These are the farmers who are having difficulty dealing with current institutional debt repayment requirements.

Exhibit No. 3 found on page 4 deals with one of the operating costs, interest, that have escalated so rapidly.

The individual has virtually no control over these costs. The tremendous change in energy cost has had an even more dramatic impact because farmers have very few energy alternatives except petroleum products.

In the short run, especially, they can only absorb the additional cost at the expense of profits and capital debt paying capacity.

Exhibit No. 4, found on pages 5 and 6, shows how farmers are reacting to the situations in which they find themselves.

The exhibit indicates that farmers are indeed investing almost all, and in many cases more than all of their cash profits and placing them in new capital and new inventory in the expectation that this will help them compete more effectively in the future.

An analysis of this exhibit and also exhibit No. 2 clearly shows that debt positions are increasing and that reasonably high leverage to operations are a way of life.

Since farmers have to work with many uncontrollable variables, including weather and prices, one can quickly see how rapidly problems created by uncontrollable factors can seriously jeopardize the future success of their operation.

The standard answer to these problems has been to recapitalize any inflation value in acquired assets, especially land, in order to satisfy the institutional requirements of intermediate lenders.

This may be OK for the lenders, but does it really help the farmers they are serving? The answer in many cases has to be no, because first, refinancing is an expensive proposition involving considerable legal expense and either front-loaded or back-loaded points that add to debt, but do little else.

Secondly, refinancing doesn't change the debt position of the borrower. It merely changes institutional repayment requirements.

I do not want to imply that refinancing is bad. It is a proper and desirable alternative to improve cash flow requirements in many cases.

We are finding more frequent situations where the standard refinancing alternatives make very little logical sense from the borrower's standpoint.

Examples of this are indicated in exhibit No. 5. Exhibit No. 5, found on page 7, describes situations somewhat peculiar to agriculture.

I can best describe this as a situation in which assets change their balance sheet nature over time in the hands of the borrower-farmer.

This especially affects the beef cow and dairy farmer who must frequently use what is classified by original fund use as an operating expense, but later the end product becomes a capital asset.

More specifically, this refers to the use of operating funds to grow and raise calves that later become breeding stock as cows, and as such, have a long productive life.

This may be considered an internal problem not associated with our discussion today; however, it is a very real part of the overall financing problem faced by farmers.

Exhibit No. 6, found on pages 8, 9, and 10, details the problems associated with new or expanded enterprises, with particular reference to livestock expansions.

It tends to deal with two specific problem areas. The first problem is that profits from an enterprise typically must first go into inventory and only later in cash to be used for debt repayment purposes.

We need to deal more adequately with the determination as to when such assets become functional from a debt repayment standpoint.

The timelag from the initiation of new construction through inventory accumulation frequently approaches 3 years.

Unfortunately, current regulations seem to measure repayment requirements from the date that funds are disbursed, rather than from the time that the new or expanded enterprise reaches normal production capacity.

Extended loan terms would assist in this area.

The second problem, as detailed in exhibit No. 6, is that all farmers do not necessarily have real estate refinancing alternatives.

With rigid repayment requirements, the farmer with the limited real estate base finds himself faced with the choice of either refinancing with another intermediate lender in order to achieve reclassification of assets and repayment requirements, or else he must attempt to wrestle with splitting his credit between multiple lenders and try to shift funds back and forth to keep each of these creditors at least marginally satisfied.

Neither of these is really desirable for either the farmer or his creditors.

Exhibit No. 7, found on page 11, is presented to show that for many types of intermediate assets the value of the assets remains well above the currently acceptable repayment terms used.

Therefore, in the vast majority of cases, security position cannot be considered the major factor in determining the repayment terms of the loans as they are presently dictated. We have not attempted in this report to deal specifically with the problem of financing building and land improvements.

Most economists and financial analysts feel that building improvements, such as feed and grain storage or livestock production facilities are justified when the projected cost can be recovered in a 9- to 12-year period.

Cost recovery here should not be confused with useful life analysis. Existing intermediate terms, again, are in conflict with expected cost recovery, because most farm improvements should not need long-term repayment terms, while current intermediate terms also do not adequately address the problem.

It doesn't really make a lot of sense from the farmer's standpoint to go to the expense of a long-term commitment merely to extend what should be intermediate term debt. We have attempted to define problems in financing that farmers are facing by resource activity.

From a practical standpoint, many farmers are able to allocate profits from other segments of their farming business to use for repayment of new investments. However, when one has to restrict credit to those farmers having these alternatives, you tend to eliminate the young farmers who can demonstrate sound management abilities, but

who have not had the opportunity to build substantial capital accumulations.

These are the farmers of the future. We do not believe our fields of service should be unnecessarily limited by excessively restrictive repayment requirements that do not appear to adequately address current problems.

Ladies and gentlemen, I come to you today also as one of the many employees of the Production Credit Associations who are out there on the firing line trying to help our Nation's farmers develop their maximum capabilities as producers of our food and as managers of their businesses.

We have dedicated our lives to this endeavor. We are asking you to provide the necessary capabilities to allow us to continue in this endeavor so that we can continue to do our part in helping America's farmers provide the food and fiber that both the citizens of the United States and the people around the world will be needing and expecting during the coming decade.

Thank you.

Mr. MADIGAN. Thank you, Mr. Taute.

[The complete exhibits are held in the subcommittee file.]

Mr. MADIGAN. Mr. William Bailey, Tennessee Farmers Co-op, La Vergne, Tenn.

STATEMENT OF WILLIAM E. BAILEY, ASSISTANT TO THE GENERAL MANAGER, TENNESSEE FARMERS COOPERATIVE, LA VERGNE, TENN.; BOARD OF DIRECTORS, LOUISVILLE BANK FOR COOPERATIVES, LOUISVILLE, KY.

Mr. BAILEY. I am William E. Bailey, assistant to the general manager of Tennessee Farmers Cooperative, La Vergne, Tenn., and member of the Louisville Bank for Cooperatives, Louisville, Ky.

The Tennessee Farmers Cooperative is a regional farm supply cooperative, serving farmers all across the State of Tennessee through 84-member cooperatives. I am pleased to have the opportunity, Mr. Chairman, to present testimony in support of H.R. 4782, as introduced. I'll be brief in summarizing the very few points that I wanted to make.

I feel that the opportunity for farmers through their cooperatives can be substantially enhanced through the assistance that the Bank for Cooperatives will be in a position to provide cooperatives in their agricultural exports, if this legislation is approved.

It's my feeling that they will have the opportunity to do this just as they have assisted our organization and our member cooperatives in all of their endeavors to this point in time down through the years.

I would say that we have found the Bank for Cooperatives has always been willing and were able to provide assistance, both from the standpoint of counseling and financial assistance on occasions in the earlier years when, certainly, such service was not available from the commercial banks. I believe that the legislation could very well provide an opportunity for the cooperatives to export a larger share of this 40 to 50 percent of the grain that they are currently buying initially.

What we're asking for is an opportunity for the Banks for Cooperatives to provide this service, and obviously, it will be incumbent upon them, should this be made available to show that they can provide the efficiency and be effective in carrying out this service.

I'd like to make just a brief comment about the eligibility side. Presently with 80 percent of voting control to be represented by bona fide farmers, 70 percent in the case of rural electrics; the proposed amendment to reduce this percentage to 60 percent for all cooperatives, I believe, can accomplish the following:

Provide a viable source of credit for the additional cooperatives that would qualify, and permit a few—and to my experience of the cooperatives that I'm concerned with, it would be a few—presently borderline cooperatives to maintain that eligibility, because in farm supply and marketing cooperatives, there's generally not a serious problem with the percentage requirement. But I think that the 60 percent will continue to assure farmer control of cooperatives that are served by the banks for cooperatives.

I would remind that the 1971 Farm Credit Act did provide for financing of nonfarm rural homes, which embodies the concept of rural America. This, of course, provided for cities and towns of 2,500 or less, and it would be in these areas of rural electric cooperatives that the opportunity for the banks for cooperatives to serve would be enhanced.

But rural America is changing and these changes for cooperatives that are continuing to serve rural America, this amendment, as I see it, is a general recognition of those changes.

Then just a brief comment about the authority to incorporate system service entities. The purpose is to enhance the efficiency and capability of the farm credit institutions by authorizing the corporate form of organization for joint services that are provided for in the 1971 Farm Credit Act.

I believe that this is extremely important. A couple of cases in point, farm bank services, which provide service for all 37 banks as a joint venture.

Other opportunities can present themselves with joint ownership of buildings where production credit associations and Federal land banks are working together, or where all three banks in a farm credit district are housed in the same building and get away from the landlord-tenant situation or the joint venture.

So I think that what we're asking for here is to provide the corporate way of doing business and not asking for any expansion of authority of the things that the 1971 Farm Credit organizations may do jointly, but the form in which that can be done.

I thank you for the opportunity.

Mr. MADIGAN. I thank you for your very cogent summary, Mr. Bailey.

[The prepared statement of Mr. Bailey follows:]

STATEMENT OF WILLIAM E. BAILEY, ASSISTANT TO THE GENERAL MANAGER, TENNESSEE FARMERS COOPERATIVE, LA VERGNE, TENN.; BOARD OF DIRECTORS, LOUISVILLE BANK AND COOPERATIVES

I am William E. Bailey, Assistant to the General Manager of Tennessee Farmers Cooperative, La Vergne, Tennessee, and also a member of the Board of Directors of the Louisville Bank for Cooperatives, Louisville, Kentucky. Tennessee Farmers

Cooperative is a regional farm supply cooperative, serving all across the State through 84 member cooperatives.

I am pleased to have this opportunity to present testimony in support of H.R. 4182. I believe the proposed Farm Credit Act Amendments of 1979 are in the best interest of farmers, ranchers, agriculture and the Nation. It is my belief that these proposed amendments provide additional opportunities for the farm credit system to carry out the intent of the 1971 Farm Credit Act, keeping in mind the following stated policies and objectives. It is declared to be the policy of the Congress recognizing the growing needs for credit in rural America, that the farmer owned cooperative farm credit system be designed to accomplish the objective of improving the income and well being of farmers and ranchers by furnishing sound, adequate and constructive credit and closely related services to them and their cooperatives.

I would direct particular attention to the proposed amendment in title III of the 1971 Farm Credit Act which will permit the banks for cooperatives to provide financing and certain related services to their borrowing cooperatives to facilitate the exporting of grain and other agricultural products. We certainly agree that there is a need for the Nation to improve its position in balance of payments. The agricultural industry through exports makes a significant contribution to the Nation's balance of payments. By permitting the banks for cooperatives to provide additional financing and certain services to their members, cooperatives will be a dependable supplier of high quality grain to foreign buyers. Presently, 40 percent of the grain produced is initially sold by the farmers to his cooperative, however, his cooperative exports only 10 percent of the total grain exported by the United States.

The proposed legislation provides for financing of agricultural products through the use of bankers acceptances, necessary correspondent relationships with foreign banks, financing of certain facilities for the storage and transportation of grain and financing of joint ownership of facilities between us farmer cooperatives and other businesses.

It is important to recognize that banks for cooperatives have been in business over 40 years, understand and appreciate cooperative needs and are in the best position to provide the needed financing and services to facilitate cooperative agricultural exports.

Next, I would direct my remarks to the proposed amendments providing for changing the eligibility requirements to borrow from the bank for cooperatives from a minimum of 80 percent (70 percent in case of rural electric utilities) of voting rights to be maintained by farmer members to 60 percent. The composition of rural America continues to change with more and more non-farm people moving into rural areas. The cooperatives are providing goods and services to these people. Rural electric cooperatives are required under the area coverage concept to provide service to any person living within their territory. Persons receiving electrical service from these utilities become voting members, thereby, reducing the percentage of voting rights held by bonafide farmers.

The banks for cooperatives are currently providing in excess of \$1 billion in financing to rural electric utilities including over \$400 million in the fourth farm credit district. The banks for cooperatives are a viable source of credit for the rural electrics that qualify.

It is becoming increasingly difficult for a few farm supply and certain other cooperatives to continue to maintain their eligibility to borrow from the banks for cooperatives, especially in the more heavily populated areas. The 60 percent minimum maintains the principles of farmer control for cooperatives served by banks for cooperatives. This is optional and a farm credit district may set a higher percentage requirement should such be deemed desirable.

I would also call attention to the authority to incorporate system service entities. The 1971 Farm Credit Act empowers district boards to authorize agreements between institutions within a district, and between districts for the provision of joint services and other nonlending activities. The act does not provide for the incorporation of institutions other than the type presently existing in the system.

The lack of statutory authority is at least one reason for the noncorporate form of farmbank services and the fiscal agency. These happen to be joint ventures of all 37 farm credit banks.

The authority to incorporate systems service entities would in no way authorize expansion of system activities. The purposes, powers and responsibilities should be spelled out in a manner similar to the way they are spelled out for existing farm credit institutions. It will enhance the efficiency and capabilities of the farm credit system.

In summary, I feel it is extremely important that the Farm Credit Act Amendments of 1979 be enacted into law, thereby, providing for a stronger rural America and additionally providing for favorable benefits to our Nation.

Mr. MADIGAN. We have Mr. Don Sands; then Mr. Roscoe Gibson; then Mr. Paul Meuser from Ohio.

Mr. Sands is with the Gold Kist Corp. from Atlanta, Ga.

STATEMENT OF DON W. SANDS, EXECUTIVE VICE PRESIDENT, GOLD KIST, INC., ATLANTA, GA.

Mr. SANDS. Mr. Chairman and members of the subcommittee, I am D. W. Sands, executive vice president of Gold Kist Inc., Atlanta, Ga. As an officer of a major farm supply and marketing cooperative, I represent one of the largest users of the cooperative farm credit system. Gold Kist is a long-time borrower from the Columbia Bank for Cooperatives and the Central Bank for Cooperatives which participates in loans originated through Columbia.

Gold Kist is farmer owned and controlled. Net margins are returned to members annually in proportion to the use each makes of Gold Kist's services.

Organized in 1933 as a cooperative to market cotton, Gold Kist has grown and expanded its operations to meet the needs of today's farmers.

Overall, Gold Kist serves over 250,000 farmer members directly and through local cooperatives. In Tennessee, 21 grain and soybean receiving locations are served by Gold Kist to assist farmers in marketing their crops. Proceeds paid farmers in Tennessee for grain and soybeans marketed last year through Gold Kist amounted to \$100 million. Approximately 13,000 farmers in Tennessee are Gold Kist members.

Gold Kist is one of the largest poultry processors in the nation, operating facilities which process and market chickens and other poultry products. Feed mills and an egg processing plant are an integral part of the poultry operation. Gold Kist operates plant food manufacturing facilities and other production plants which serve the input needs for farmers mutual exchanges, of which there are over 130 in Georgia, Alabama, Florida, and South Carolina. Many of these local cooperatives serve as receiving points for peanuts, pecans, grain, and soybeans from local farmers.

Gold Kist operates three soybean processing plants including one at Marks, Miss., and several shelling plants and is the largest processor of peanuts in the world.

In our most recent operating year, Gold Kist had sales in the amount of \$1.7 billion. Farmer member investment in the cooperative is now approximately \$160 million. This investment supports the borrowed capital required to operate the diversified business of Gold Kist. In connection with borrowing from the banks for cooperatives, Gold Kist is an owner in the farm credit system through stock owned in the Columbia Bank for Cooperatives. As an owner in the cooperative banking system, we constantly seek ways to better utilize our investment.

One method by which use of this investment can be furthered is through the entry of the banks for cooperatives into the export financ-

ing field. The Farm Credit Act Amendments of 1979 contain provisions which would enable banks for cooperatives to do just this. If passed, this bill would have a far-ranging impact on our cooperative and its members.

In response to the need to expand markets for agricultural products for its members, Gold Kist has been an exporter for a number of years. Our early export concentration was in cotton, poultry, and peanuts. In 1973, we established an International Marketing Division to concentrate our marketing expertise in world trade. In recent years, our export sales operations have increased, including the chartering of vessels for delivery for goods to foreign destinations. For our most recent operating year, a gross volume of export sales amounted to approximately \$216 million, an increase of almost 100 percent over the marketing levels of a year earlier. Total export sales amounted to approximately 13 percent of the business that we did. To give you an example of our growth in this area, less than 5 percent of our total volume was in export sales as recently as 1974.

Our objective in the International Marketing Division is to become a dependable source of supply for export customers and thereby help maintain good outlets for the products we market on behalf of our members.

Sales made early in our export efforts were on an f.o.b. point of shipment basis. However, as sales have expanded, different methods of selling and collecting have been utilized in order to be competitive with other exporters and, in order to be of the best service to our export customers by providing different terms of sale, we have been able to expand our export marketings. This has been important to our farmer members who have found that our ability to move commodities into export markets has helped in stabilizing domestic prices and has provided additional service that Gold Kist as a cooperative can provide to its members.

Gold Kist's diversification reflects the diversified nature of agriculture in the South and Southwest. Our export marketing of those commodities produced on thousands of family farms is likewise a result of our diversification efforts. Over \$100 million worth of soybeans and their derivative products, over \$55 million worth of peanuts and \$20 million of poultry exported last year attest to the importance of the export trade to our cooperative and its members. Margins made on the export portion of our business originated from member stockholders are distributed to our operating divisions. Thus, the ultimate member return for products marketed through the cooperative is enhanced.

Our plans are to aggressively seek to expand export marketing of our members' products. Our board of directors, made up of 13 farmers who hail from States all the way from South Carolina to Oklahoma, feels it is in the best interest of our members for Gold Kist to continue to be aggressive in world trade. We are committing additional resources to this end.

As an example, Gold Kist, along with six U.S. cooperatives, have joined four European cooperatives in operating InTrade, Inc. This firm now owns 50 percent of a major European commodity trading company.

Through cooperation, our goal is to maximize our joint efforts in obtaining as favorable position as possible in export marketing. This goal arises from the efforts of U.S. farm marketing cooperatives to seek the best price possible for their farmer members. The inflationary spiral of agricultural input costs leaves farmers with only two choices—increase production and attain economies of scale on their farms or obtain a larger share of the consumer's expenditures for food and fiber.

Often cited are the statistics which reflect that farmer cooperatives handle 44 percent of U.S. grain at the point of first sale, but they handle less than 10 percent at the export sale level. Our farmer members are asking us to do a better job in this area; that is, they want us to increase cooperative market shares closer to ultimate consumers.

In this connection, we respectfully submit to you our views on the Farm Credit Act Amendments of 1979. It is our belief that the banks for cooperatives, given legislative authority, can be a positive factor in assisting farmer cooperatives in expanding their share of export trade.

We feel strongly that the public interest will be best served and our Nation's policy of trade expansion supported by favorable consideration of the Farm Credit Act Amendments of 1979. The export financing provisions, which will be directly commented on later, are consistent with longstanding congressional intentions that the banks for cooperatives should serve fully the credit and financially related needs of America's farm supply and marketing cooperatives. The Farm Credit Act of 1971 makes specific reference to the need to continue to update credit and other services of the farm credit system in order to meet the changing needs of agriculture and the Nation's agricultural cooperatives. The Farm Credit Act Amendments of 1979 provide a direct and positive step forward by allowing members of cooperatives added access to a growing world market for agricultural products.

In over 45 years of existence, the banks for cooperatives system has built a strong experienced base in dealing with cooperatives. These cooperatives are moving into world trade to a greater extent each year. Effective banking services and sound financial transactions are a crucial part of profitable international trade. Delays in transfers of funds and similar problems can reduce cooperatives' ability to compete effectively with other exporting firms. Our member owned banks can now carry our financing to the point of export, but not beyond. It is a perfectly logical extension of the banks for cooperatives' services to follow their member borrowers into international trade with appropriate financial accommodations to serve specialized needs.

Farmers invest in cooperatives primarily through retained patronage allocations. This retained capital is not available to farmers to assist in financing their own operations. Likewise, the capital invested in banks for cooperatives by its member borrowers is costly. Its use should be maximized. Cooperatives currently have \$800 million invested in the banks for cooperatives. Why should we not gain further use of our cooperatives' investment in the banks by gaining additional advantages for our members and using the banks' services to finance farm exports. We at Gold Kist see opportunities to more

rapidly expand into world trade if the Farm Credit Act Amendments of 1979 are passed. We feel secure in speaking for other cooperatives engaged in the export marketing of over a dozen different U.S. commodities to many different countries abroad as well.

Specifically, while there are eight provisions in the Farm Credit Act Amendments of 1979 relating to export financing, each of which is important, we will comment only on several of the major items.

To gain an effective ability to assist its members in financing their transactions in foreign trade, banks for cooperatives need the authority to establish correspondent relationships with foreign banks to expedite payments and collections. In the case of Gold Kist, as we rapidly expand our export sales, the use of our own cooperative banking system to facilitate transactions will help us manage our cash more effectively—with the ultimate beneficiary of this being our farmer members. Gold Kist, in recent years, has found it very advantageous to use bankers acceptances as a key tool in our financial management and so have other U.S. cooperatives. Clear statutory authority is needed by the banks for cooperatives to allow the purchase and sale of acceptances.

Gold Kist and other diversified cooperative marketing firms have found that the best arrangement for certain types of ventures used to facilitate international trade may be through investment in subsidiaries or by establishing certain trade relationships. Presently, banks for cooperatives are prohibited from assisting their members in financing such arrangements although a clear and direct benefit from the arrangement runs to the cooperative. In those cases where substantial benefits from the loan arise to the cooperative, it seems to us that banks for cooperatives' participation should be permitted. Such authority would simply allow U.S. cooperatives to further utilize their own banking system.

While we discuss here several added authorities sought by banks for cooperatives, I would like to make the point that we seek for the cooperative banking system no authorities in international transactions which are not now available to the commercial banking institutions of the Nation.

The essence of this testimony is to seek from Congress added flexibility for the banks for cooperatives system. The policy of Congress, as established in the Farm Credit Act of 1971, is for user direction of the farm credit system under the broad policies of the Federal Farm Credit Board with supervision by the Farm Credit Administration. Since that landmark legislation was enacted, progress has been significant in the farm credit banks and associations. However, the rapid changes in our operating environment calls for expanded authorities to meet the need of agriculture and the Nation's farmer cooperatives.

I can speak firsthand as to the many benefits which have accrued to cooperatives from doing business with the banks for cooperatives. Looking ahead, we trust the subcommittee will see fit to approve the new authorities needed by banks for cooperatives.

Gold Kist is grateful for this opportunity to express its views before this subcommittee on the Farm Credit Act Amendments of 1979

and wishes to go on record as being in favor of this proposed legislation.

I would be pleased to respond to any questions.

Mr. MADIGAN. Mr. Sands, we are going to take more witnesses and then we're going to have a panel discussion and question and answer period. I hope that you will be able to stay and take part in that.

Mr. Jones should be back very quickly and we want him to be here for the question and answer period.

Mr. Roscoe Gibson from Clarksburg, Mo.

**STATEMENT OF ROSCOE R. GIBSON, FARMER, CLARKSBURG, MO.,
REPRESENTING JEFFERSON CITY PRODUCTION CREDIT ASSOCIATION,
SIXTH FARM CREDIT DISTRICT**

Mr. GIBSON. Mr. Congressman, I am Roscoe Gibson from a little town right in the center of Missouri by the name of Clarksburg.

I own and operate an 1,100 acre crop and livestock farm. I'm appearing here in a dual role. First, to express my personal views as a farmer; and second, as representative of the Jefferson City Production Credit Association.

I have been a member of the Jefferson City Production Credit Association for many years. I am now chairman of the board of directors of the association that serves 2,200 members in our area.

The Production Credit Associations of the sixth district are serving the needs of their farmers by providing related financial services.

The services are strictly optional on the part of the members. I have used most of these services and continue to use them, and I believe that I have profited by this participation.

The most recent optional services being offered is the property and farm liability.

I am one of the 122 members of the Jefferson City Production Credit Association that is using this related farm service.

At my request, the director of related services visited my home and made a complete review of my insurance coverage. This is the first time that an insurance agent visited my farm for this purpose, and I have been farming for nearly 30 years.

I've always had to call at his office.

Our farm home was 9 years old when we entered the PCA insurance program. I found that it was covered at 62½ percent of its value. It would have been covered at only 50 percent of its value had I not 1 year previously insisted that it be raised.

My liability insurance was \$50,000. It is now at \$300,000, which is in line with my investment and exposure to possible liability claims.

It was pointed out that I needed to drop coverage on nonfunctional buildings and increase coverage on machinery, equipment and buildings that were vital to my farm operation.

I have some figures that indicate my previous coverage and how the coverage is updated yearly.

The insurance on my farm home with my previous agent was \$40,000. That had been raised \$10,000 in 1 year.

The first year I was with PCA we raised it to \$55,000 and this year we went up to \$66,000.

My dwelling contents was raised likewise.

I happen to have three tenant dwellings on my farm and these were raised at 50 percent.

My barns and outbuildings were almost insured to where I have them insured now. I had them rather adequately insured.

But my farm equipment was increased by 50 percent, and liability by \$250,000.

I was very fortunate that I did not have a serious accident or I might be in trouble with my finances on the farm.

I think anybody could easily say or criticize me for not keeping atop of my insurance needs. This criticism would be justified.

A farm production unit is a complex business today. We need specialists for counseling in fertilization, feeding of livestock, taxes and also in insurance.

I bought a \$15,000 self-propelled haybine this summer. It showed up in my monthly Agrifax record service being provided by my PCA.

The field man called me to ask if I wanted to insure the machine. This is what I call good insurance service.

By the way, for your information, I didn't have to borrow the money to buy this machine.

As chairman of the board of directors, we feel that our ability to adequately finance our members is tied to their financial stability.

We have data to indicate that prior to PCA entering into the casualty insurance area that many of our members were vulnerable to serious financial losses.

Contrary to the assertions that PCA's are nonprofessional in the insurance field, it would appear in our experience with 108 members that there has been poor servicing of the insurance needs.

Every farm operator needs sufficient liability coverage.

We found that only 10 percent of the members that we have insured had sufficient or adequate liability coverage.

Twenty-three percent or 25 of the 108 had no farm liability whatsoever. One serious accident and they would have been out of business.

Twenty-seven had only \$25,000; 29 had \$50,000; 17 at \$100,000; and only 10 out of 108 had \$200,000 or more, what we believe is adequate liability insurance.

Some insurance companies do not insure the farm dwelling at a rate that it should be insured. We believe that the farm dwelling is a vital part of the insurance business.

If it is seriously damaged or destroyed, it will greatly affect that production unit. A study of 101 policies written shows a definite under-insuring on the farm dwelling and the farm contents.

In order to adequately insure these, we had to increase insurance by 77 percent.

PCA's are co-ops consisting of farmers who do business with farmers and farmers only. These farmers need professional insurance service, and it is my opinion that these farmers will do business with whoever provides the best service, whether it be an independent agent or a PCA.

Our related insurance program is a service to our members. Upon request from the member, the entire farm insurance program is examined.

Suggestions are made concerning the adequacy of the coverage. Some 30 to 35 percent of the reviews result in the members updating their insurance coverage with their present carriers.

I have tried to indicate that each member is advised of their insurance needs. They may or may not accept this advice.

If they do, they may purchase their insurance from any agent.

Our insurance agents in the PCA, if you want to call them that, are salaried individuals. The farmer member is not pressured to buy PCA insurance.

We have 21 percent of the nonreal estate farm loans in our area. We provide related insurance services for members only.

Slightly less than 50 percent of our members carry credit life insurance through the PCA. Less than 10 percent of these members have crop hail, and 6.9 percent of them carry property and liability coverage. This is an extremely small percentage of the farm insurance business.

The Farm Credit System should retain its present authority to offer credit-related insurance. To the extent that insurance losses may jeopardize loan repayment, the system and the investing public have a legitimate interest in seeing that the system borrowers have an adequate and timely insurance service available.

I believe that PCA's ability to provide insurance services will encourage those already in the farm insurance market to provide better service. We believe this is coming about in our 12-county area today. I observed an insurance agent visiting a neighbor of mine. I certainly hope that he was updating the insurance program.

I am pleased with the service I am receiving from the PCA's on credit life, crop hail, property, and liability insurance. I want PCA to write my insurance.

Real quickly, I have seven short reasons of why I think that I should have an opportunity to buy PCA insurance.

First, PCA's are not in the insurance business. They are in the loan business, and in the business of offering only credit-related services to their farmer members.

Second, agents understand farm business. Our agents understand the farm business and the financial needs of farmers. He realizing that a finishing house may cost \$75,000 to \$100,000 to replace, and sometimes it's difficult to get that type of insurance on this type of a structure.

They are trained to provide the insurance needs to protect my financial obligations and that's what insurance is for. They provide me with timely insurance service. They know of my capital investments so they can keep my coverage current. They update my coverage annually.

They just don't send me a bill, as my previous agent did, once per year, and say, "You owe \$1,300." They really update my insurance. I am a stockholder of the PCA that does business only with farm members. We should be able to provide insurance to our members as do other co-ops and other organizations.

PCA's will provide sound insurance counseling. Yet if I want to, I can choose another carrier. I do not have to use PCA. PCA is interested in my financial stability, not just the insurance premium.

And lastly, the net profit, if any, and so far I don't think we've had much net profit, is returned to our co-op to add to our financial structure.

Thank you very much for the opportunity to appear before this committee.

Mr. MADIGAN. Thank you very much, Mr. Gibson.

Our last witness is Mr. Paul Meuser, president of the Columbus, Ohio, PCA.

STATEMENT OF PAUL F. MEUSER, CHAIRMAN, BOARD OF DIRECTORS, COLUMBUS PRODUCTION CREDIT ASSOCIATION, FOURTH DISTRICT, FARM CREDIT SYSTEM, COLUMBUS, OHIO

Mr. MEUSER. I am Paul Meuser, chairman of the board of directors of the Columbus Production Credit Association.

My association has \$17 million in assets, \$143 million outstanding, and we service approximately 4,000 members.

I appreciate the opportunity to present the Production Credit Association's view concerning the 10-year loan, which I feel should be a part of House bill 4782, the Farm Credit Act Amendments of 1979.

My testimony will be concise and kept within the framework of fact, the fact being the knowledge of the past with regard to the business of agriculture.

Fact 1. Consider the tremendous increase in funds needed to manage productively today's American farmer. As an example, yesterday's combine probably cost \$15,000; today's \$75,000; and tomorrow's, who knows, probably \$150,000.

Fact 2. The average size loan in my association has increased 320 percent within the last 10 years. A \$100,000 loan in 1969 has increased to over \$300,000 today.

Fact 3. The burden of interest costs has increased 350 percent on each individual farm operator. The 1969 interest cost of \$6,750 is almost \$38,000 today.

Fact 4. Yesterday's farmer needs were basic. Today's farmers needs are integrated and tomorrow's farmer needs will be highly sophisticated, plus we haven't even touched on environmental and energy conservation requirements.

Fact 5. In 3 of the last 7 years, the average farmer has dipped into depreciation for living and other related expenses. It is obvious that any business in the economic community needs a longer period of time to recover from these effects of weather and prices. As has been said here previously, refinancing short-term debt to long-term debt is a severe and unfair penalty to pay.

Fact 6. Inflation dictates that the farmer receive a larger margin of profit and/or a longer term to finance the specialized equipment and housing necessary.

Fact 7. American agriculture is the bright spot in relation to America's position in world trade. The American consumer demands a reasonable cost for food products and the competitive position of the American farmer makes the greatest contribution to the international balance of payments. The progressive position of American farmers has to be maintained without a doubt.

Fact 8. The last changes to the Farm Credit Act were in 1971. Today we are talking about amendments in 1979, which mean that a 10-year loan in 1987 or later will be too late.

Yesterday when we talked patriotism, everyone rushed to the nearest war zone to prove America's greatness.

Today's generation won't buy this type of philosophy.

The challenge of patriotism to we Americans today must be in terms of world prestige and influence, balance of payments, consumer cost and taxpayer dollars.

The best answer we have is America's great breadbasket.

Gentleman, we need the 10-year loan. On behalf of the Columbus Production Credit Association, I appreciate the opportunity to express my views before this committee.

Thank you, gentlemen.

Mr. MADIGAN. Mr. Meuser, thank you very much for being so concise.

Ladies and gentlemen, we have concluded the witness list at the same time that our distinguished chairman has returned from his other commitment at the Federal land bank.

Mr. JONES of Tennessee. Thank you, Ed. I do appreciate your taking the time and the responsibility of looking after this august body while I went to talk with the Federal Land Bank Association.

I know the hearings that I have missed have been good, and I can assure each person who has testified that I'll read it with a great deal of interest.

What I need to ask you is should I call them back for a panel? Do you think I can effectively with staff bring out any questions that need to be brought out?

Mr. MADIGAN. I think that the witnesses this morning have been very good, Mr. Chairman. The principal issue that has been discussed here by these witnesses is the question of the PCA's participating in insurance underwriting.

The other items that are of some controversy, particularly the financing of export activities by cooperatives, have been touched on to a lesser degree.

One or two gentlemen have mentioned the 10-year loan.

I think it would be fair to say that everyone that we've heard in these 2 days is in favor of the 10-year loan proposition.

There is some controversy that attaches itself to the question of financing cooperative exports, and considerable controversy on the insurance proposition.

Mr. JONES of Tennessee. So with that I believe that you are saying that you feel that the subjects have been covered sufficiently in the testimony and we don't need to ask any questions of this group this morning.

Mr. MADIGAN. Well, I would leave that to your discretion. I would suspect, however, that if we did ask questions and get answers, that the answers would be somewhat repetitive, because I don't think anybody is going to change their position.

Mr. JONES of Tennessee. I think with that suggestion that we'll just recess until 1:30 when we'll hear the remaining witnesses.

[Whereupon, at 12:05 p.m., the hearing was recessed, to reconvene at 1:30 p.m., the same day.]

AFTERNOON SESSION

Mr. JONES of Tennessee. Gentlemen, let's be seated and come to order and we'll proceed with the hearing.

Before we begin, I want to recognize the fact that the press has remained with us very patiently, and I appreciate that more than they know, because it's always good to know that there's some interest as far as our problems are concerned, and they've done a good job of covering the entire hearing time.

This afternoon will be a little shorter than we probably anticipated from the beginning, because we've already heard three witnesses on the afternoon list.

Our first witness this afternoon is Mr. Elvin J. Farrar of Dalton, Ga.; and then followed by Mr. John Reisz, from Owensboro, Ky.

There will be no questions asked until we hear all the witnesses, and there may not be any questions because I'm by myself this afternoon.

Mr. Farrar, if you'll come forward, we'll certainly be glad to hear you at this time.

STATEMENT OF ELVIN J. FARRAR, GENERAL MANAGER, NORTH GEORGIA ELECTRIC MEMBERSHIP CORP., DALTON, GA.

Mr. Chairman and members of the subcommittee, I am Elvin J. Farrar, general manager of the North Georgia Electric Membership Corp. of Dalton, Ga. Our business is an electric cooperative, owned by those it serves with electricity and operated for their benefit.

We serve over 49,000 consumers in a seven-county area in northwest Georgia and now have invested about \$39 million in plant to serve our members. Plant investment has increased by \$24 million in the last 10 years due to growth of our system and the inflation, along with the purchase of some plant from other utilities in an effort to achieve economies in our operation. Thus, we have been faced with the need for large capital investments, as have other utilities. In fact, during the next 2 years our projections show that we will need \$8 million for plant additions.

We are basically a system of farm and residential consumers, like most rural electric cooperatives. In addition to providing power for dairies, poultry production, et cetera, we serve thousands of part-time farm families. These families usually have two or more members employed in local manufacturing plants as well as working on the farm. Electric cooperatives serve 70 percent of the land area of the United States.

While we have experienced rapid growth in our service area, we still have a rural-based electric distribution system. As a result, our revenue per mile of line does not compare favorably with local investor owned utilities. Thus, as our system has grown and our need for capital increased, we have had to seek a dependable source of debt financing to supplement the basic financing of our system which is done by the members through retainage of our net revenues.

North Georgia EMC has been obtaining loans from the Columbia Bank for Cooperatives, Columbia, S.C., since 1973 with a long-term loan being arranged in 1977. This loan provides us with a major portion of the capital we will need for expansion and improvement of

service. In order to arrange loans with the Columbia Bank for Cooperatives, it is necessary for us to purchase stock in that institution since it is owned by its members, just like we are.

As a stockholder of the bank and a user of its services, we are supporting the Farm Credit Act Amendments of 1979. Particularly, we hope that favorable consideration can be given to broadening the lending authority of the banks for cooperatives. The present requirement that at least 70 percent of the voting stock of a rural utility cooperative be held by farmers, could place cooperatives using the banks for cooperatives in the position of not being able to know if the banks can continue to serve them in the future. The rural electric cooperative needs this additional source of funding as an option in their financial planning. By law, electric cooperatives are required to serve anyone located in their service area. Many who locate in our area are now nonfarm people. As urban areas grow and farming becomes more specialized we may see a decline in the part-time farmer and more density in our service area.

As the number of persons dependent on agriculture for a portion of their livelihood continues to decline, many electric cooperatives now able to borrow from the banks for cooperatives may have difficulty obtaining the capital they need not only to serve new consumers but to continue to adequately serve those who have been members for many years.

While the Rural Electric Administration makes loans to fund a portion of the long-term capital needs of most rural electric cooperatives, there are some cooperatives such as ours which are not able to avail ourselves of capital from that source. Our cooperative repaid an original REA loan in 1963 and recertification to borrow from REA at this time is not economically feasible. Thus, the ability for us to obtain capital from other sources, such as the banks for cooperatives, is critical to our cooperative's future and to the economic well-being of our members.

In our opinion, the farm credit system was established by Congress to serve the rural population. Years ago, this population was largely made up only of farm families. Changes in the farm credit legislation over the years have been made in response to the recognition that the makeup of the rural population has changed. There are fewer families depending on farm income as their sole source of income.

Updating of legislative authority is needed again to provide that the banks for cooperatives can continue to help rural electric cooperatives by furnishing loans needed to meet a portion of their capital investment requirements.

We respectfully request favorable action by Congress on the Farm Credit Act Amendment of 1979.

I will be pleased to respond to any questions.

Mr. JONES of Tennessee. Thank you very much, Mr. Farrar, and we may want to ask you a question or two.

I want to add this to what has been said about REA's and your borrowing authority. In some of the other hearings that we've conducted, we've had testimony favorable to the same question that you raised here.

Mr. John Reisz we're delighted that you are here. Following your testimony will be Mr. Bardin Redditt.

**STATEMENT OF JOHN REISZ, FARMER AND DIRECTOR, FEDERAL
LAND BANK ASSOCIATION, HENDERSON, KY.**

Mr. REISZ. Mr. Chairman and members of the subcommittee, I am John Reisz, owner and operator of a 1,200-acre general farming operation. I am also a director of the Federal Land Bank Association of Henderson, Ky. That association serves eight counties in the western part of the State. It has approximately \$95 million in loans outstanding to 1,000 borrowers. It is a part of the Fourth Farm Credit District which has over \$3 billion in loans outstanding to about 58,000 borrowers.

The Federal land bank system is a great success story of Government and agriculture working together cooperatively to achieve the development of a farmer-owned system which helps the farmer help himself while providing food and fiber for his fellowman. The farm credit system is essential to the perpetuation of a healthy agricultural industry—the largest and most important industry in America. I appreciate this opportunity to come before you and express views relative to not only the importance of the system, but the significance of the passage of the Farm Credit Act Amendments of 1979—H.R. 4782.

At this point it is well to refer to the objectives and purposes of the farm credit system and the Farm Credit Act of 1971. The objective of the system as defined in the Farm Credit Act of 1971 is, and I quote, "To improve the income and well-being of the American farmers and ranchers by furnishing sound, adequate and constructive credit and closely related services to them, their cooperatives and to selected farm related businesses necessary for efficient farm operations." The productivity and efficiency of the American farmer is unparalleled anywhere else in American industry, and for that matter in the world. Adequate, sound and constructive credit in rural areas has been, and will continue to be, vitally important to such agricultural accomplishments and successes. The farm credit system must be a reliable source of that credit.

Another great success story is the American private enterprise system with its great contribution to the industrial and commercial growth and the exceptional living standards we enjoy. The growing burden of production to feed and clothe the people of the world continues to fall to a big extent upon the shoulders of the American farmers; however, if they are to respond to these demands by increased productivity, the scope of financing through the farm credit system will need to be expanded. Such expansion is being proposed in this new act amendments by the provision which provides for increased financing for the process and marketing activities of bona fide farmers.

It is imperative in this capital intensive industry that the eligibility of financing by the Federal land banks and the production credit associations to include processing and marketing activities directly related to the applicant's farm operations be broadened. The American agriculture and the people who depend so heavily upon its products would benefit greatly from the expanding scope of financial servicing in this area. Farm credit system involvement to a greater extent will result in farmers acquiring better and more efficient processing and marketing facilities which in turn will contribute to improved farm income and better overall cost efficiency.

The objectives of the Farm Credit Act of 1971 encourages farmer and rancher-borrowers' participation in the management, control and ownership of a permanent system of credit for agriculture that will be responsive to the credit needs of all types of agricultural producers having a basis for credit, and to modernize and improve the authorizations and means for furnishing such credit. The farmers and ranchers have achieved 100 percent of ownership of their own farm credit system and do participate in the management and control of that system through farmer and rancher directors elected from their membership. I know from experience as a director we have been responsive and are serving the credit needs of all types and sizes of farm enterprises having a basis for credit.

A profile of the borrowers in the Fourth Farm Credit District reflects:

	<i>Average</i>
Loan amount.....	\$97, 710
Total assets.....	\$495, 322
Total debts.....	\$168, 789
Debts/assets (percentage).....	34
Age of borrower.....	41
New loans (percentage).....	66
Second mortgage on security (percentage).....	14
Acres operated.....	330
Acres owned.....	207
Appraised value.....	\$173, 478
AV per acre.....	\$1, 418
Loan/AV (percentage).....	57

This profile along with the district loan number and volume (58,000—\$3 billion-plus) supports a contention that the farm credit system is serving a broad spectrum of creditworthy farmers and that there is a strong demand for that credit service from this system to sustain the vitality of this great agricultural industry.

Needless to say, agriculture is continuing to experience rapid changes. Agricultural enterprises are becoming larger, more complex and more diversified. This is becoming increasingly essential as greater demands are being placed upon the productivity of individual units and the industry as a whole. The diversification, particularly in the area of processing and marketing facilities along with the trend toward longer and more complex units, increases the credit demands made upon the farm credit system. The system will become an even more dependent source of credit in the future, thus the need for an expanded scope of statutory authority as provided in the 1979 act.

Credit in connection with processing and marketing facilities is restricted to farm operations with over 50 percent of the processing and marketing being produced by the borrower on the loan security. In many cases this unduly inhibits the development of a financially viable farm business enterprise and is contrary to the stated objective in the 1971 act; therefore, I encourage favorable consideration be given to the new Amendments Act providing for the broader scope of lending authority.

As indicated earlier, agriculture is continuing a rapid rate of change—new problems and challenges in the area of environment such as energy, marketing, processing, transportation and others must be dealt with effectively. The Farm Credit System has done a very good

job of dealing with those changes as far as credit needs are concerned in the past; however, to continue to meet those challenges the system must be updated from time to time or modernized, if you will, to accommodate the growing credit requirements which will enable farmers through their cooperative system to effectively deal with and solve these kinds of problems both now and in the future. Congress, in its infinite wisdom and foresight, in the establishment of the great Farm Credit System, recognized that credit beyond the land and production needs of farmers was necessary to enhance their operations and income. By doing so, the opportunity is provided through processing and/or marketing business extensions for them to become price makers instead of just price takers. This of course enables them to bargain for a reasonable price for their products in the marketplace. You will agree that is as it should be in all industries.

An example of a farmer engaged in production with further interest in processing and marketing is one who produces seed corn. He engages in production off of his own land, but in order to process his own brand he develops a seed corn plant and marketing facility. As a result, he controls the production, grading treatment, bagging and sale of the product.

Normally, in order to support the investment in the plant, the seed corn producer will engage under contract other farmers to produce additional seed corn to be processed and marketed through his facility. This is usually done with additional incentives which increase their returns. As I stated earlier, under present requirements of the law and regulations, if the production being processed from other farmers under contract exceeds that of the farmer-borrower who is processing and marketing the final seed product, his processing and marketing venture would not be eligible for financing by either a Federal Land Bank or a PCA.

Other examples of business extensions of farmers into processing and/or marketing are: A cattle feeder processing his own feed formula who may provide the same service for other feeders; alfalfa dehydration; turkey or chicken processing and marketing, et cetera.

Again, the proposed legislation, which provides for the financing and processing and/or marketing business of farmers, would clarify and enhance the original intent of Congress in the formation of the system. It would relieve the burdens now placed on farmers who in borrowing from his own cooperative credit institution, finds himself in the position of not having adequate credit available from such institution for his own processing or marketing business activity. This surely is not consistent with the objective of the 1971 Farm Credit Act, which as stated, is to improve the income and well-being of American farmers by furnishing them with sound, adequate and constructive credit.

Under the present authority the producer is forced to seek additional credit from another lender. As a result he must deal with two lenders. This can lead to loss of control, lender experience and consequently lack of continuity in his operations. The present requirement forces him to seek another lender when processing and/or marketing interests exceed his farm production limitations by 50 percent. This will probably lead to inadequate credit for either the farm or the processing

or marketing facility, or both, because of the dilution of security between two lenders and differing loan administration, security or loan repayment policies. As implied earlier, the inability of farmers to gain the advantage of obtaining adequate credit through their own Farm Credit System for the aforementioned reasons limits the ability to be competitive at processing and marketing points, ultimately resulting in lower prices for producers.

There may be a concern that the proposed 1979 act, which provides the lending latitude needed in the area of processing and marketing business, permits an excessive shift of financing to the Federal Land Banks and Production Credit Associations. It is my understanding that any such excessive shift in financing could and would be controlled by regulatory authority and by district board policy. The amendment dealing with this area of authority recognizes that needs are and will be different across the Country, and therefore provides that those closest to the grassroots of agriculture will determine what constitutes an excess of business interests in processing and marketing. Proposed internal controls in this area would again be by district lending policy and possibly by individual association policy. The passage of this amendment will result in a sound and constructive credit service where a real need exists and will contribute positively to assure that such combined ventures make the best economic success for farmers and rural America.

Mr. Chairman and committee members, I am grateful and appreciative for the opportunity to express my views today and would be pleased to respond to any questions you may have.

Mr. JONES of Tennessee. Mr. Bardin Redditt is a farmer, National Committee Federal Land Bank Association of Greenwood, Miss. Thank you for attending this meeting.

Mr. REDDITT. Thank you, Mr. Chairman. Mr. Chairman, I have submitted copies of my statement to your staff, and at this time I have a summary of that statement to present, and I have copies of it.

Mr. JONES of Tennessee. Very good. We'll put both in the record. We'll include the whole statement and then the summary.

STATEMENT OF R. BARDIN REDDITT, GREENWOOD, MISS., REPRESENTING FEDERAL LAND BANK ASSOCIATIONS NATIONAL COMMITTEE

Mr. REDDITT. Mr. Chairman, I am Bardin Redditt from Greenwood, Miss., representing the Federal Land Bank Associations National Committee. Our committee is composed of one representative from each farm credit district representing the land bank borrowers from the district. It is our function to present to the Federal Board grassroots input on items for consideration by the Federal Board. We feel that this grassroots line of communications to the top policy-making body of the farm credit system has been instrumental in strengthening the land bank system as we know it today.

I am also one of nine stockholder representatives on the New Orleans District Federal Land Bank Associations Stockholders Committee.

This committee acts as liaison between the borrowers and the association to bank management and the district board. Both of these com-

mittees are purely advisory. I am a borrower of the Federal Land Bank Association of Greenwood, and am chairman of its board of directors.

My other affiliations with farm credit financed institutions includes being a board member and vice president of a cooperative gin, a director of a cooperative farm supply and grain facility in Greenwood, and also I obtain my production money from the Greenwood Production Credit Association. I am also vice president of Leflore County Farm Bureau.

Primarily, I am a farmer interested in the cooperative farm credit system and the Federal land bank in particular. I sincerely appreciate the opportunity to present my views as a member of the Federal Land Bank Associations National Committee concerning House bill 4782, the Farm Credit Act Amendments of 1979.

This legislative initiative, as submitted to Congress, is the best thinking of the farm credit system at this time. Many proposals to amend the act were considered by various boards of directors and committees across the country.

Out of approximately 60 proposed suggestions, 28 items have finally evolved as a consensus of opinion of the entire farm credit system. To my knowledge, the land banks and the land bank associations, as well as all of the other entities in the farm credit system, are unified behind these 28 legislative proposals. Each part of the farm credit system has submitted these items which it thinks would best serve it needs. We are reasonably sure that everyone is not totally satisfied.

However, I can say on behalf of the Federal Land Bank of New Orleans and the Federal Land Bank Associations National Committee, this is the best effort that can be offered at this time to improve the Farm Credit Act of 1971.

Just 2 weeks ago at the meeting of the Land Banks National Committee, it reapproved these 28 items unanimously without amendments. We'd like to see it go through just as it is without any further amendments.

The primary purpose of the legislative package is to afford opportunity for each farm credit entity to offer more efficient and effective credit services to its borrowers.

This will eventually serve the best interest of the American public. We must be prepared to move into the 1980's with progressive, dynamic lending organizations if we are to satisfy the credit need of farmers in the coming decade.

For this reason, the legislative package being proposed must meet the requirements of the coming years, and we feel that it does this.

The land bank, as well as the other branches of the farm credit system pay their own way. The funds we borrow are not guaranteed by the Federal Government.

We recognize that the public interest must be served through a strong supervisory posture, and we the borrowers pay for this supervision.

The land banks are major farm lenders. Nationally, the land banks have 34 percent of the long-term farm mortgage debt; individuals have about 34 percent; FHA about 6 percent; and all the other commercial lending institutions have about 26 percent.

Therefore, we consider ourselves the major lending institution on farm credit, and we are an integral part of the competitive American agricultural system.

There is no other segment in the American economy that is more competitive than agriculture. In fact, farmers purchase most of their inputs at retail and we sell what we grow at wholesale.

We compete with industry for raw materials and labor.

Because of the efficiency of agriculture, the American people are now spending about 17 percent of their disposable income for food.

This is certainly a bargain as compared to other nations, such as Russia where 50 percent of the disposable income is spent in food.

In general, farmers feel they are providing food and fiber to the consuming public of this Nation at bargain prices.

At the same time, we are feeding a large part of the rest of the world.

Because of the nature of agriculture and the competitive nature of farming in general, we feel that the American public is at a distinct advantage.

American agriculture has played a major role in maintaining the high standard of living we've become accustomed to. In many countries, wealth is measured by the amount of food available to its people. If this is true, we are indeed the richest nation on Earth.

I feel that the enactment of this proposed legislation will give American farmers an even greater opportunity to continue to provide food and fiber to the consuming public at bargain prices.

Farmers must have a strong credit system if they are to continue to have substantial contribution to the economy.

The major opposition that I've heard concerning this legislative package has been from groups or individuals who do not want us, the farmer, through our credit institutions, to compete with them.

A good example of this is the insurance where the other supposedly farm-related institutions do not want to compete with us, and I submit to you, Mr. Chairman, that we need to be able to buy our insurance or get any other of our inputs from the person or institution that can provide them to us at the least possible cost.

Mr. Chairman, the Land Bank Associations National Committee is grateful for the opportunity to express its views to you.

It's been a pleasure for me to be able to be here and visit with you concerning the subject that has been close to me all of my adult life.

I have used the farm credit system for a number of years, and had it not been for this credit system, I would not be able to conduct my farming in the manner that I'm doing today.

The farm credit system is one of the reasons for the success that I have been able to achieve.

American farmers and the American public need our farm credit system.

With the passage of this legislation, we shall achieve even more. The Land Bank Associations National Committee solicits your support for this legislation.

Thank you.

Mr. Jones of Tennessee. Thank you very much, Mr. Redditt. We appreciate the time that you've taken to be here and for a very good statement.

[The prepared statement and summary of Mr. Redditt follows:]

Statement of

R. Bardin Redditt

Federal Land Bank Associations National Committee

Mr. Chairman, I am Bardin Redditt of Greenwood, Mississippi representing the Federal Land Bank Associations National Committee. Our Committee is composed of one representative from each Farm Credit District representing the Land Bank borrowers of that District. It is our function to present to the Federal Board "grass roots" input on items for consideration by the Federal Board. We feel that this "grass roots" line of communications to the top policy making body of the Farm Credit System has been instrumental in strengthening the Federal Land Bank System as we know it today. I am also one of nine stockholder representatives on the Federal Land Bank of New Orleans Stockholders Committee. This Committee provides liaison between borrowers and the Federal Land Bank Associations to Bank management and the District Bank Board. I am a Federal Land Bank borrower and Chairman of the Board of Directors of the Federal Land Bank Association of Greenwood, Mississippi. Our Association has over 725 borrowers, and approximately \$33 million in loan volume outstanding. The Federal Land Bank of New Orleans has almost 32,000 borrowers with more than \$1.5 billion in loan volume outstanding. I am giving you this background information in order that you might have some idea of the scope of mortgage financing offered by the Association I represent, and by our District Land Bank. My other affiliations with Farm Credit financed institutions includes being a Board member and Vice President of a Co-op cotton gin, a director of a cooperative farm supply and grain facility and a PCA borrower. Primarily, I am a farmer interested in the cooperative Farm Credit System, and, in particular, the Federal Land Bank. I sincerely appreciate this opportunity to present my views as a member of the Federal Land Bank Associations National Committee concerning House Bill No. 4782, the Farm Credit Act Amendments of 1979.

It is my purpose to discuss with you those amendments which are of primary interest to the Federal Land Banks and the Federal Land Banks Associations. I feel sure that those amendments dealing with the other segments of the System will be discussed by individuals far more qualified than I.

FINANCE PROCESSING AND MARKETING ACTIVITIES OF BONA FIDE FARMERS

The purpose of this amendment is to extend the scope of financing by the Land Banks and the Production Credit Associations to include processing and marketing facilities directly related to an applicant's farm, ranch, or aquatic operations. Currently, the Land Banks are authorized to make loans on marketing or processing facilities located on the farm property being taken as primary collateral and the facility uses a majority of products produced on that farm. The authority we are seeking is to broaden our lending authority to finance a processing or marketing facility that is owned and operated by farmers, who process their own production and some of their neighbors. As an example, three cotton farmers wish to go together to build a cotton gin to gin their own cotton, plus some of their neighbors' cotton. The gin is to be located on a small tract off their farms. Currently, we cannot finance this type of facility, but feel we should have the authority. It is important to the Land Bank to be able to finance this type of facility, as it is an extension of the farmer's farming operation. There is no new type of borrower involved in this type of financing. The borrowers must be bona fide farmers. To my personal knowledge, several facilities owned by friends of mine, who are farmers, had to be financed outside the Farm Credit System because of our inability to serve their credit needs. We want to help farmers get more income from the products they produce, by their being able to participate in the marketing and processing of their own production.

If this loan authority is granted by Congress, our District Board has issued a policy position requiring that a minimum of 20 percent throughput of the capacity of the facility must come from the borrower's own production. This means that we will not be financing a business entity for people outside of agriculture. It is my feeling that this amendment is one of the most important in the current legislative package for the Land Bank, as farmers are seeking means of improving income. Participating in the marketing and processing of their own production is one way to accomplish this goal.

85 PERCENT LENDING LIMITATION

Another amendment of interest to the Land Banks is the authority to make loans in excess of 85 percent of the appraised value of the real estate security, when such loans are guaranteed by a government agency. Such guarantees could be extended by the Farmers Home Administration, the Small Business Administration, or, in some instances, state governmental agencies. This is of primary importance to us, because of the announced shift in Farmers Home Administration loan programs away from participating with private lenders to guaranteeing their loans. Many of the Federal Land Banks have been heavily involved in making participation loans with the Farmers Home Administration. More than 85 percent financing of the primary real estate was necessary from both lenders to meet credit requirements of many applicants. Most young farmers lack equity in real estate they wish to purchase, but many have strong managerial ability and a desire to succeed. With the guarantee of our loan, we would be in a stronger position to serve the deserving, marginal credit risk. In my judgment, this program would benefit agriculture.

We feel that this amendment is essential, if the Land Banks are to provide credit to many worthy young farmers. A modification in the law will be required, if the Land Bank is to continue to reach borrowers it now serves under the Farmers Home Administration/Federal Land Bank

Participation Loan Program. As stated earlier, we understand that the Participation Loan Program will receive less emphasis and funds, and that the Guaranteed Loan Program will receive the principal emphasis from the Farmers Home Administration in the future.

LOAN PARTICIPATIONS

We are interested in amending the law to authorize the Land Banks to participate with other lenders in the System, or outside of the System, on real estate loans. This program would provide us with the authority to make more effective use of capital, and to more fully meet the credit needs of credit-worthy borrowers. Currently, the law provides that we can only participate with other Federal Land Banks. We feel that there is justification in participating with commercial banks, Production Credit Associations, and others in making real estate loans. As an example, the Land Bank and a commercial bank could go together in helping a farmer with his total real estate credit needs by both institutions participating in a loan. Production Credit Associations currently have had the authority to participate with other lenders, such as commercial banks. The Land Banks should be afforded the same privilege.

On several occasions I have noted that the Land Bank could have been of greater credit service to a farmer-borrower, if this authority had been available. We feel, therefore, that there is considerable merit in loan participation with other lenders. I feel that commercial bankers would strongly support this amendment, as it would provide them a means of serving a customer, as well as extending the use of their own capital.

PATRONAGE REFUNDS AND DIFFERENTIAL DIVIDENDS

Another amendment being proposed would authorize the Federal Land Banks and Federal Land Bank Associations to pay patronage refunds. This proposal would be similar to the authority now held by the Production Credit Associations and the Banks for Cooperatives. We feel that this authority would enable the Land Banks to operate on a purely "cooperative" basis, i.e.,

to return earnings to the borrower on the basis of his contribution. At the same time, we are asking that the law permit us to pay a differential dividend based upon the amount of interest paid on the loan. Currently, dividends are based on the amount of the stock. In essence, his amendment would give us more operating flexibility, and also give us authority to make payments back to borrowers based upon their contribution to the System. It is my personal view that the patronage refund and the differential dividend amendments are providing about the same thing. We would urge passage of these amendments, because in addition to giving more flexibility, they would also give us the additional authority we feel is needed in both the Bank and the associations in handling dividends.

AQUATIC LOANS

An amendment is being proposed which will authorize the Land Bank System to provide long-term, first mortgage real estate loans to producers and harvesters of aquatic products for the purpose of constructing docking and storage facilities, as well as for other credit needs. As you know, the law now gives the Production Credit Associations the authority to make loans to producers and harvesters of aquatic products for short and intermediate-term credit needs. However, we have found that these borrowers need financing for long-term real estate requirements, such as the construction of docking and storage facilities. Therefore, we feel that the Land Banks should be authorized to make long-term real estate mortgage loans to eligible borrowers who are classified as producers or harvesters of aquatic products.

AUTHORITY TO DELEGATE

There are several other provisions in the legislative package which are of interest to the Land Bank. One is the authority of the President to delegate his position on the Finance Committee or Subcommittee to a member of his staff. According to the President of our Bank, this proposal would permit the president of a Federal Land Bank or other System Banks to determine how to more effectively utilize his, and the members of his staff, time and skills. With effective delegation to skilled members of the

President's staff, (Financial Vice President, Treasurer, etc.) considerable savings can be made in assembling Presidents, either in called meetings, or telephone conferences. We feel that this is a housekeeping item, which is desirable, and should be corrected in the law.

LOSS SHARING

The System has just completed Loss Sharing Agreements, to include agreements between all institutions within the System. The purpose of the Loss Sharing Agreements is to preserve the capital of the individual borrower and enhance the capital viability of the System. This legislative proposal would simply expand the legal authority of the System institutions to enter into such agreements with one another. The Land Bank System favors this amendment, as it gives the legal means to enter into agreements which protects the individual borrower's capital in the various System institutions.

TRUTH-IN-LENDING

The purpose of this amendment will establish that only the Federal Truth-in-Lending law would apply to the Farm Credit System lending. This proposal would ensure that, if the Truth-in-Lending Act is amended to relieve any of the burdens it imposes upon the Federal Land Banks or any of the other Farm Credit institutions, similar burdens would not be imposed upon them by state law. It is my own judgment that current Truth-in-Lending provisions are a hindrance, as well as costly, to us in making loans. The provisions of Truth-in-Lending really should not apply to the Land Banks, as we have always been open and above board concerning interest rates, loan terms, loan cost, repayment schedules, etc. Personally, I would really like to see the Land Banks exempted from all the Truth-in-Lending laws, but would settle for exemption from state law.

INTEREST RATES

This amendment has been offered to clarify and reaffirm that lending by the Farm Credit System is exempt from state imposed interest rate limitations, (i.e. usury laws). We have always felt that we were comply-

ing with Federal law as any interest rate change must first be approved by the District Bank Board, and then by our supervisory agency, the Farm Credit Administration. We have contended over the years that we are, therefore, in compliance with Federal law, and need not have to comply with state law. The purpose of this proposal is to remove any possible doubt that the Farm Credit System is exempt from state usury law.

Clarifying the exempt status would ensure the continue availability of new credit for farmers and ranchers in periods of "tight money." It has been my personal observation that whenever we have "tight money" periods, or whenever there is a so-called "credit crunch," other lenders leave the long-term farm mortgage market because they cannot operate at a profit, or because other investment alternatives are more profitable. The only institution left to make loans to farmers are the Federal Land Banks, and the other Farm Credit institutions. Therefore, I think we should take every step possible to ensure that these dependable sources of credit are exempt from state usury laws. We do not want to charge "points" or exorbitant loan closing fees. We want to make sound loans with interest rates approved by the District Boards and the Farm Credit Administration.

ELECTION PROCESS

This amendment requires that the list of candidates for the position of elected district director consist of the two nominees receiving the highest number of votes, rather than three nominees as is presently required. This amendment would put the election of district director in line with the practice in most elections, i. e., the candidates receiving the majority of the votes would be considered in the election. We believe we should run our elections as most other elections are run in the United States. (This proposed amendment should not be confused with the requirement in the law that at least two nominees must be nominated by the Nominating Committee for each elected office to be filled in the association. The requirement for two nominees in Federal Land Bank Associations and Production Credit Associations' elections remains in force.)

INCORPORATION OF SYSTEM SERVICE ENTITIES

This amendment would authorize the Farm Credit Administration to charter corporations which perform service and finance functions for Farm Credit institutions. District boards are empowered, under current law, to authorize agreements between institutions within a district for the provision of joint services, and between districts for those services which can most effectively be made available by the joint undertakings of the districts. However, present law does not provide for the incorporation of institutions other than the types presently existing in the System, (Banks and associations). Although the Farm Credit Act of 1971 authorizes the performance of services on a joint basis by, or on behalf, of interested Farm Credit System institutions, it does not authorize the organization of a corporation to provide the services. This is the case even though the corporate form may be the most efficient or convenient form of business organization for the purpose desired. The lack of statutory authority to incorporate service organizations in the Farm Credit System is at least one reason for the present non-corporate form of organization for Farmbank Services. It could probably be most efficiently operated as a corporation. We feel that this authority is needed to comply with the original intent of the Farm Credit Act of 1971.

AMENDMENTS DEALING PRIMARILY WITH THE FARM CREDIT ADMINISTRATION

Mr. Chairman, there are also several amendments which have been proposed dealing with personnel matters in the Farm Credit Administration. I would like to address these in a general manner by saying that the Farm Credit Administration is a supervisory agency for the Federal Land Banks and all other System institutions. They operate under specific requirements found in the law. This supervisory function does not cost the taxpayer one "red" cent, as the cost of supervision is paid by the System institutions, which means, in effect, that it is paid for by the borrowers that use the System. It is my feeling that in order for us to attract and retain the kind of people we want within the System, and to have mobility between System

institutions and the Farm Credit Administration, steps must be taken to eliminate the restrictions on employment and personnel administration, that would restrict or impede progressive human resource development programs. Although the Farm Credit Administration is a Federal Agency, it is unique in that its costs are borne by the institutions it supervises and that personnel qualifications are mostly related to agriculturally oriented individuals with strong financial backgrounds. They should be well grounded in association and Bank operations, therefore, they should come from these organizations. The proposed amendment would help solve some of those problems, and provide us with a supervisory agency capable to meet the challenges of the 1980s.

SUMMARY

In summary, I would like to emphasize that the Land Banks are major farm mortgage lenders. Nationally, the Land Banks hold about 34 percent of all farm mortgage debt, individuals also hold 34 percent; the Farmers Home Administration six percent; and all other commercial lenders 26 percent. We are a major lending institution. We are a part of the competitive system found in the agriculture economy. There is no other segment of the American economy that is more competitive than agriculture. Farmers purchase most of their production inputs at retail, and they sell what they produce at wholesale. They compete with industry for raw material and for labor. Because of the effectiveness and efficiency of agriculture, the American people are spending about 17% of their disposable income on food. This is certainly a bargain when compared to other nations, such as Russia, where about 50% of income is spent on food. In general, farmers feel that they are providing food and fiber to the consuming public of this nation at a bargain. At the same time, we are feeding a large part of the world's population. We feel that because of the nature of agriculture and the competitive nature of farmers in general, the American public is at a distinct advantage. American agriculture has played a major role in maintaining our high standard of living. In many countries, wealth

is measured by the amount of food available to its people. If this is true, we should be the richest people on the earth.

I feel that the enactment of this legislation will give the American farmer a chance to do an even better job of providing food and fiber to the consuming public. It will add to the increasing high standard of living of the American people. The only opposition I have heard concerning this legislation was from people who do not want us, the farmer, to compete with them through our credit institutions, or from those who want to restrict competition in general.

Mr. Chairman, the Federal Land Bank Associations National Committee is grateful for the opportunity to express its views before your Committee. It was a real pleasure for me to be able to be here and to visit with you concerning a subject which has been close to me all of my adult life. I have used the Farm Credit System for a number of years, and had it not been for this progressive credit System, I would not have been able to conduct my farming operation in the manner I am doing today. The Farm Credit System is part of the reason for the success I have achieved to date. The American farmer and the American public needs the Farm Credit System. With the passage of this legislation, we should be able to achieve even more for the farmers and for the public.

I will be pleased to respond to questions that you, or members of the Committee might have. Thank you.

Mr. JONES of Tennessee. Our next witness is Mr. Tom Hutchinson of the Rutherford Farmers Co-op, Murfreesboro, Tenn.

I might mention that Mr. Hutchinson's father many years ago was Assistant Secretary of Agriculture under Secretary Charlie Brown-

STATEMENT OF K. THOMAS HUTCHINSON, PRESIDENT, BOARD OF DIRECTORS, RUTHERFORD FARMERS COOPERATIVE, MURFREESBORO, TENN.

Mr. HUTCHINSON. Thank you, Mr. Jones.

I'm Thomas Hutchinson, president of the Rutherford County Farmers Co-op.

This cooperative is serving 2,500 member farmers. In 1978 we did \$7.75 million in sales, with a savings to the farmers of some \$400,000; and this year we see that we are going to do a \$10 million sales, with close to one-half million dollars in savings to the farmers.

Rutherford Farmers Co-op became a member of the Louisville Bank for Cooperatives in 1966, which is our primary source of commercially borrowed funds.

I am a full-time farmer with my son, who graduated from college last spring, and we are raising 800 acres of soybeans, 150 acres of wheat. This makes up my main source of income.

My farmer cooperative is very essential in my farming operation, and it must stay strong to continue to serve me, as well as the other farmers in our county.

Congress in the 1971 Farm Credit Act clearly stated its intent that the farmer-owned cooperative farm credit system be designed to accomplish the objective of improving the income and well-being of American farmers and ranchers by furnishing sound, adequate and constructive credit to the farmer cooperatives and selected farm-related businesses.

The 1971 act goes on to set forth certain requirements which cooperatives must meet to be eligible to borrow from the banks for cooperatives.

One of these requirements that applies to the farm supply cooperatives is that 80 percent of the voting capital of the cooperatives be held by farmers.

It is currently being requested that the Farm Credit Act Amendment of 1979 be passed by the House. One of the amendments in the bill concerns this requirement for farmer's voting control in the cooperative for them to be eligible to borrow from the bank for cooperatives.

It is requested, and I strongly endorse, Ed, that the farmer voting control, which is now 80 percent, be lowered to 60 percent.

The district bank boards of directors would retain the right to set higher farmer member requirements when circumstances make this decision appropriate.

My farmer cooperative has three classes of patrons. Number one are the member producers or the voting members.

The number two's are the nonmember producers. These are patrons that buy less than \$500 a year from our co-op.

And the number three's are the nonmember nonproducers, the urban people that come to our cooperative to buy lawn and garden supplies, hardware, automobile accessories and gasoline and so forth.

This classification is the responsibility of the cooperative board of directors, and on periodic occasions our board purges this membership list to be sure that we stay in line so that we can continue to borrow from the Louisville bank.

Over the last several years we have seen a definite trend of a growing percentage of patrons being nonfarmers, and if this trend continues, our farmer cooperative could very well be ineligible to borrow from the bank for cooperatives.

Why this change in patrons? The last few years a lot of new industry has moved into Rutherford County and surrounding counties, and with the FHA-financed rural water system and available rural electric service, of which I serve on both boards and president of both of these organizations, we are having an urban movement into the rural areas.

Many of these people are becoming part-time farmers, raising mainly a few cows and calves and a number of feeder pigs. In Cannon County the farmer-owned and operated feeder pig association has grown to be the largest feeder pig sales in the world, and this makes a very excellent market for these part-time farmers in the feeder pig business.

These part-time farmers need to be served and they must be served. I know that middle and east Tennessee is having a greater urbanization of the rural areas than the areas in west Tennessee; but, Mr. Jones, even in your area, west Tennessee is experiencing changing in agriculture. Like in Obion County, the tremendously large Goodyear plant there, and the many other industries that are locating in your area.

With industry becoming more competitive for labor, farmers are finding that sufficient labor is just not available; and what the farmer and his family can't do, most of the time just goes undone.

Our farm cooperatives are filling these labor gaps by furnishing more services, like spreading lime and fertilizer, spraying on herbicides and onfarm fuel deliveries, and also furnishing a market for the farm commodities.

With our serious transportation problems in this country, our co-ops are having to build more storage and buy farm supplies much farther in advance.

All of these things take a lot of money and, frankly, Mr. Jones, if Rutherford Farmers Co-op loses their right to borrow from the Louisville Bank for Cooperatives, I don't know where we could get financing.

I know that some of the commercial banks furnish financing for the farmer cooperatives in the rural areas, but agriculture is changing, and I wonder how long these rural commercial banks can continue to furnish sufficient financing.

I am a director of the Murfreesboro Bank & Trust in Murfreesboro, which is a \$110 million bank with close to half the business in Rutherford County.

There are four other banks in Rutherford County, but our main—I also serve on the executive and finance committee of the Murfreesboro Bank, and our largest problem is liquidity.

We are running from 68 to 73 percent loaned out, and I understand that the other banks in the county have this same problem. Even with the high interest rates, our loan demand is still growing.

Frankly, the local banks just don't want the farmer business. They prefer short-term loans, installment loans, municipal investments and so forth.

This kind of financing just don't suit agriculture. The PCA's and the Federal land banks and the banks for cooperatives are furnishing the main part of the farmer's credit.

Our Rutherford Farmers Co-op has about \$1,400,000 borrowed now from the Louisville Bank, with an effective interest rate of 9.8 percent on long-term loans and 10.8 percent on commodity loans.

If we borrowed that money from our local banks, that interest rate would be 13.5 percent or more.

I have a dollar-and-cents equity in these organizations, and I expect them to be responsive to my needs, as other farmers do in our county.

In general, the public is also served, and by this requested change in eligibility requirements, no additional tax dollars are being sought for this purpose.

In fact, the farm credit system employs no tax dollars. It has earned its own rights to the moneymaking markets and is doing a very efficient and effective job.

It is my personal belief that this amendment is in the best interest of farmers, the farm supply cooperatives, the banks for cooperatives, and the public in general, and I urge you strongly to work for the passage of the bill.

[The prepared statement of Mr. Hutchinson follows:]

STATEMENT OF K. THOMAS HUTCHINSON, PRESIDENT, BOARD OF DIRECTORS,

RUTHERFORD FARMERS COOPERATIVE, MURFREESBORO, TENNESSEE

MR. JONES AND OTHERS ATTENDING THE MEMPHIS FIELD HEARING, I AM K. THOMAS HUTCHINSON, PRESIDENT OF THE BOARD OF DIRECTORS OF RUTHERFORD FARMERS COOPERATIVE, MURFREESBORO, TENNESSEE. THE RUTHERFORD FARMERS COOPERATIVE HAD FARM SUPPLY SALES IN ITS FISCAL 1978 YEAR OF APPROXIMATELY \$7.75 MILLION AND ANTICIPATES REACHING ALMOST \$10 MILLION IN ITS CURRENT FISCAL YEAR. IT SERVES APPROXIMATELY 2500 FARMERS WHO ARE PRIMARILY LOCATED IN RUTHERFORD AND CANNON COUNTIES. THE COOPERATIVE HAS BEEN A MEMBER OF THE LOUISVILLE BANK FOR COOPERATIVES SINCE 1966, AND THAT BANK HAS SINCE BEEN THE COOPERATIVE'S PRIMARY SOURCE OF COMMERCIALY BORROWED FUNDS.

I AM ALSO A FULL TIME FARMER, RAISING 800 ACRES OF SOYBEANS AND 150 ACRES OF WHEAT THIS YEAR. SINCE MY FARMING ACTIVITIES REPRESENT ULTIMATELY MY ONLY SOURCE OF INCOME, I AM MOST INTERESTED IN HAVING A STRONG COOPERATIVE STRUCTURE WHICH WILL ENHANCE THOSE FARMING OPERATIONS, AS WELL AS THOSE OF OTHER FARMERS LIKE ME ACROSS THE COUNTRY.

WITHIN THE 1971 FARM CREDIT ACT, CONGRESS STATED CLEARLY ITS INTENT "THAT THE FARMER-OWNED COOPERATIVE FARM CREDIT SYSTEM BE DESIGNED TO ACCOMPLISH THE OBJECTIVE OF IMPROVING THE INCOME AND WELL-BEING OF AMERICAN FARMERS AND RANCHERS BY FURNISHING SOUND, ADEQUATE, AND CONSTRUCTIVE CREDIT AND CLOSELY RELATED SERVICES TO THEM, THEIR COOPERATIVES AND TO SELECTED FARM-RELATED BUSINESSES NECESSARY FOR EFFICIENT FARM OPERATIONS." THE 1971 ACT GOES ON TO PROVIDE FOR THE BANKS FOR COOPERATIVES AND TO PRESCRIBE THEIR CORPORATE POWERS AND MANY OTHER ASPECTS OF THEIR BUSINESS. TO ASSURE THE ACCOMPLISHMENT OF CONGRESSIONAL PURPOSE, THE ACT SETS FORTH CERTAIN REQUIREMENTS WHICH COOPERATIVES MUST MEET IN ORDER TO BE ELIGIBLE TO BORROW FROM A BANK FOR COOPERATIVES. ONE OF THOSE REQUIREMENTS WHICH APPLIES IN THE CASE OF FARM SUPPLY COOPERATIVES IS THAT AT LEAST 80 PERCENT OF THE VOTING CONTROL OF THE COOPERATIVE BE HELD BY FARMERS OR OTHER ELIGIBLE COOPERATIVE ASSOCIATIONS.

IT IS CURRENTLY BEING REQUESTED THAT THE FARM CREDIT ACT AMENDMENTS OF 1979 BE PASSED BY THE HOUSE (HR 4782). ONE OF THE AMENDMENTS

INCLUDED IN THAT BILL CONCERNS THIS REQUIREMENT FOR FARMER VOTING CONTROL OF COOPERATIVES FOR THEM TO BE ELIGIBLE TO BORROW FROM A BANK FOR COOPERATIVES. IT IS REQUESTED, AND I STRONGLY ENDORSE, THAT THE REQUIRED VOTING CONTROL BE LOWERED FROM THE PRESENT 80 PERCENT TO 60 PERCENT. WITH INCREASING URBANIZATION AND THE EVOLUTION OF THE PART-TIME FARMER, THIS REQUESTED AMENDMENT WOULD ALLOW THE BANKS FOR COOPERATIVES TO BE ABLE TO MORE FULLY SERVE THE CREDIT NEEDS OF RURAL AMERICA WITHOUT IN ANY WAY ABANDONING THE PRINCIPLE OF FARMER CONTROL OF ELIGIBLE COOPERATIVES. IN ADDITION, DISTRICT BANK BOARDS OF DIRECTORS WOULD RETAIN THE RIGHT TO SET HIGHER FARMER-MEMBER ELIGIBILITY REQUIREMENTS FOR COOPERATIVES IN THEIR DISTRICTS IF CIRCUMSTANCES MADE THAT DECISION APPROPRIATE.

FROM THE PERSPECTIVE OF MY POSITION WITH THE RUTHERFORD FARMERS COOPERATIVE IN MURFREESBORO, TENNESSEE, THIS REQUESTED CHANGE IS SIGNIFICANT. ALTHOUGH OUR COOPERATIVE'S BYLAWS ARE STRUCTURED TO RETAIN CONTROL OF THE ORGANIZATION IN THE HANDS OF FARMER PRODUCERS, THE AREA WHICH IT SERVES IS EXPERIENCING MANY OF THE EFFECTS OF URBANIZATION. NO LONGER CAN IT BE SAID THAT ALL RURAL RESIDENTS ARE FARMERS. I BELIEVE THAT THE COOPERATIVE CANNOT OPERATE IN AN IVORY TOWER AND IGNORE THE NEEDS OR WISHES OF THOSE NON-FARMERS, EVEN THOUGH IT EXISTS FOR THE PRIMARY BENEFIT OF FARMER-PRODUCERS. SIMILARLY, I BELIEVE THAT THE BANKS FOR COOPERATIVES CANNOT IGNORE THE CHANGING ENVIRONMENT OF THOSE ORGANIZATIONS WHICH CONGRESS HAS CHARTERED IT TO SERVE.

MORE SIGNIFICANTLY, HOWEVER, I BELIEVE THE TRENDS SEEN AROUND MY HOME AREA OF TENNESSEE ARE NOT ISOLATED INSTANCES. I BELIEVE AGRICULTURE IS CHANGING AND THAT THE BANKS FOR COOPERATIVES REQUIRE DIFFERENT PARAMETERS TO ACCOMPLISH THE SAME PURPOSE TODAY THAN THEY DID IN 1971. ON THE OTHER HAND, I DO NOT BELIEVE THAT A CHANGE IN THIS VOTING REQUIREMENT, AS REQUESTED IN THE FARM CREDIT ACT AMENDMENTS OF 1979, WILL HAVE A SIGNIFICANT IMMEDIATE IMPACT ON THE FARM SUPPLY BORROWERS OF THE BANKS FOR COOPERATIVES. IT SHOULD MERELY PROVIDE ASSURANCES FOR FARM SUPPLY COOPERATIVES OF TODAY THAT THEY WILL HAVE A CONTINUED AND DEPENDABLE SOURCE OF FINANCING AS THEIR OWN MEMBERSHIP COMPLEXION EVOLVES.

FROM THE PERSPECTIVE OF THE BANKS FOR COOPERATIVES, THIS CHANGE IS VITAL TO THEIR CONTINUED ABILITY TO PROVIDE SOUND AND CONSTRUCTIVE CREDIT AND CREDIT-RELATED SERVICES TO FARMER COOPERATIVES. WHILE LEGISLATION RIGHTFULLY MUST PROTECT THE FARMER INTEREST AND CONTROL

IN THE ENTIRE FARM CREDIT SYSTEM, UNNECESSARY RESTRAINTS BEYOND THAT POINT WILL SERVE ONLY TO HAMPER THEIR ABILITY TO PLAN FOR THE FUTURE AND TO PROVIDE IN THE BEST WAY POSSIBLE FOR THE FUTURE NEEDS OF AGRICULTURAL COOPERATIVES.

AS A PERSON WHO IS A LOCAL COOPERATIVE MEMBER-OWNER AND WHICH COOPERATIVE IS A MEMBER-OWNER OF THE LOUISVILLE BANK FOR COOPERATIVES, I HAVE A DOLLAR-AND-CENTS EQUITY INVESTMENT IN THOSE ORGANIZATIONS. I EXPECT THEM TO BE RESPONSIVE TO MY NEEDS AS A FULL-TIME FARMER, FORWARD-LOOKING IN THEIR OPERATIONS AND ORGANIZATION, AND SOUND AND PRUDENT BUSINESS ORGANIZATIONS.

THE PUBLIC IN GENERAL ALSO IS SERVED BY THIS REQUESTED CHANGE IN ELIGIBILITY REQUIREMENTS. IT SHOULD BE REMEMBERED THAT NO ADDITIONAL TAX DOLLARS ARE BEING SOUGHT FOR THIS PURPOSE. IN FACT, THE FARM CREDIT SYSTEM, AS A WHOLE, EMPLOYS NO TAX DOLLARS. INSTEAD, IT OPERATES ON ITS OWN MERITS, EARNS ITS OWN RIGHTS TO THE MONEY MARKETS, AND EXISTS AS A LENDER TO COOPERATIVES ONLY TO THE EXTENT THAT THEY CAN DO A MORE EFFICIENT AND EFFECTIVE JOB THAN OTHERS. THEY DO NOT HAVE A CAPTIVE MARKET; THEY DO NOT HAVE A GOVERNMENT UNDERWRITING; AND THEY ARE NOT WITHOUT EXCELLENT COMPETITION.

IN SUMMARY, THE FARM CREDIT ACT AMENDMENTS OF 1979 IN PART PROVIDE FOR LOWERING THE FARMER-MEMBER ELIGIBILITY REQUIREMENTS FOR BC FINANCING TO 60 PERCENT OF VOTING MEMBERS OR SUCH HIGHER PERCENTAGE AS DISTRICT BOARDS OF BANKS FOR COOPERATIVES MAY ESTABLISH. UNDER PRESENT LAW, 80 PERCENT OF THE VOTING MEMBERS OF A COOPERATIVE (70 PERCENT IN THE CASE OF RURAL UTILITY COOPERATIVES) MUST BE FARMERS IN ORDER FOR THE COOPERATIVE TO MEET THIS ELIGIBILITY REQUIREMENT FOR BC FINANCING. BY LOWERING THE REQUIREMENT TO 60 PERCENT, THE BANKS FOR COOPERATIVES WILL BE ABLE TO MORE FULLY SERVE THE CREDIT NEEDS OF RURAL AMERICA WITHOUT ABANDONING THE PRINCIPLE OF FARMER CONTROL OF THE ELIGIBLE COOPERATIVES. MOREOVER, DISTRICT BANK BOARDS OF DIRECTORS WOULD RETAIN THE RIGHT TO SET HIGHER FARMER-MEMBER ELIGIBILITY REQUIREMENTS FOR COOPERATIVE ELIGIBILITY IF THEY SO CHOSE.

IT IS MY PERSONAL BELIEF THAT THIS AMENDMENT IS IN THE BEST INTEREST OF FARMERS, FARM SUPPLY COOPERATIVES, THE BANKS FOR COOPERATIVES, AND THE PUBLIC IN GENERAL.

Mr. JONES of Tennessee. Our next witness is Mr. Paul Noel of Hopkinsville Elevator, route 4, Hopkinsville, Ky.

Welcome, Mr. Noel, to the hearing and we're delighted at this time to hear from you.

Our next witness will then be Mr. Dan Crumpton of Clarksdale, Miss.

STATEMENT OF PAUL A. NOEL, GRAIN FARMER, HOPKINSVILLE, KY., PRESIDENT, BOARD OF DIRECTORS, HOPKINSVILLE ELEVATOR CO., HOPKINSVILLE, KY.

Mr. NOEL. Mr. Chairman, I am Paul Noel from Hopkinsville, Ky. I am a member of a family farm operation which includes 2,500 acres of crops, including corn, soybeans, wheat, and tobacco. All my income is generated from our farm operation.

Other than that, I work very closely with our local cooperative elevator, and I've been president of that board of directors since 1968. I was a charter member in forming that cooperative, and I've been president ever since. We work with approximately 1,500 farmers from the western Kentucky area, primarily in Christian, Trigg, and Todd Counties.

We started out in 1968 as a small cooperative, the only grain cooperative in the area, and in the last 10 or 11 years we have grown from an inland house to establishing a barge-loading facility on the Cumberland River.

This gives our farmers access to the export markets at the gulf. Approximately 70 percent of our grain is moved through our cooperative affiliations in the export channels at the gulf.

I feel under these circumstances as a farmer and a co-op elevator, being on the board, that it's extremely important than the farm credit system be given flexibility to serve and represent the farmer's grass-roots interests in exporting. I would like to submit that I support the amendments as presented, but I will address myself more specifically to the export financing for the banks for cooperatives.

I would like to clarify one thing before I go further. I'm not here to testify from the position of being an expert on the intricate and complex mechanics of export financing, but I have no doubt whatsoever that the banks for cooperatives across the country can furnish this kind of expertise should this legislation be passed.

My main concern and purpose here is to testify from the position of the need to have the choice of exporting more products through our cooperative system.

I know the value of our cooperative system from first-hand knowledge, and I don't think that can be debated too much.

I am down at the level where the need for this legislation really begins. I am addressing a long-term philosophy that agriculture must have, as export trade is about the only realistic support to our agricultural economy. We have tried many other things along the road, but none of them have worked. Export trade, in my opinion, has got to be developed and treated as an important part of our economic system and not as a necessary evil, like it has been in the past.

Now, because of our growing production and exports, we as farmers are more exposed to, and dependent upon, the foreign and interna-

tional grain markets because of the effect that it has on farm prices. You know, used to, our local markets was the only thing that we paid any attention to, but now I'm about as interested to know whether it rained in Brazil yesterday as I am what the local weather forecast is, because it directly and very immediately affects prices.

So we have to get into this international market game. We are in it, whether we want to be or not. We can't circumvent the law of supply and demand if American agriculture is going to survive as a part of the free enterprise system. It's imperative that we come to rely less on Government subsidies and set-aside programs and gain more reliance on the exporting of grain.

Now, farmers have always put a great effort into developing a way of applying a stronger voice in the marketplace, because most cooperatives scattered through the country are there for a reason. They were started because there was a need for them. Farmers needed markets that they could control, have more control over, and could depend on, because a cooperative is much more sensitive to the need of the people that use it than private business.

The only thing we're asking to do now is to extend that interest one step further, and that is into going more directly through our farmer-owned cooperatives into international trade. The local cooperative is an extension of the farm; what we're trying to do now is just another step that we need to take and we've got to take.

Now, local cooperatives buy at least 40 percent of the grain out of the country, which has been stated here several times; but this is not the important thing. If farmers have gone to the extent to create their own local markets, to take 40 percent of the grain out of the country—and by the way, that last figure I've seen, that represented a net equity of \$13.95 billion that farmers have invested in their own markets domestically.

Now, when we go one step further, though, that's when we lose the ball game, because we drop from 40 percent down to a scant 10 percent, from the shiploading docks to the foreign sales.

I feel that we have got to, for economic reasons, gain a greater economic benefit from our sales further down the line than we're going now, and I think one important benefit of this would be the retention of capital within the agricultural economy.

The earnings that were earned within the producing and marketing of agricultural products can be maintained within the agricultural economy, and I think you'll agree that when you go to the money market to replace capital of any kind now, it's rather expensive.

So to me, being able to retain as much of this within our economy, this accrues to the benefit of the farmer; even though it might not be directly, it will accrue to his benefit through being able to do a better job and build more facilities for our export trade.

Now, while this is going on, it's not going to take away from our domestic benefits that export sales already bring, because we know what it does for the balance of payments, and I think that figure has been positive \$10 million probably—\$10 billion, I mean—for at least 5 years.

Also, every time you export a dollar's worth of stuff, it creates 2 dollars' worth of domestic activity, so the co-ops going into the export

trade directly, in other words, will not take away from the public interest whatsoever.

Now, we've got to improve our position in the export trade if we're going to protect this \$13.95 billion investment that I was talking about. I feel that the cooperatives in exporting will do a good job of it for the same reason that a good job is done at the local level. They will ship a quality product, because of the farmer control from the bottom will demand that they do so.

This criteria of quality and reliability are extremely important if we're going to build an export trade on a foundation that will consistently—and I want to underline consistently. We can have off-again-on-again export trade, but my contention is we have got to build export trade based on a foundation that will consistently, year after year, support our agricultural economy.

Our farmer cooperatives are and will be initiating contacts and expanding their business in the international markets.

The financing and the financial services become increasingly important at this stage.

These needed services are covered in this proposed legislation which I am speaking of now. The bank already provides two-thirds of the capital used by farm cooperatives, and I think it's been spoken to before today that it is natural and beneficial that the cooperatives employ this expertise with this other step they're taking.

I doubt that this proposed legislation would have just immediate effect on the volume of agricultural exports, but already our relationship with our banks for cooperatives would warrant that they have this flexibility, because they already support the cooperative systems up to this point, and then all of a sudden they can't go any further. So this, I don't think, is in keeping with the best interest of agriculture.

I would also like to point out that this is only enabling legislation. It is not a request for funds and it does not ask for a competitive advantage of any sort; but given the banks' unique understanding of cooperatives, which they must have and they already have to do the job that they've done, they are in the best position to meet the growing international needs of farmer cooperatives. In summary, Mr. Chairman, I feel the Farm Credit Act Amendments of 1979, H.R. 4782, are needed to enable the farm credit system to carry out its mission as outlined in the Farm Credit Act of 1971. That has been repeated several times today, so I won't go over it again; but you are well acquainted with what that mission is.

This broadened authority will allow the banks for cooperatives to continue to adequately serve U.S. agricultural cooperatives as the importance of agricultural production increases in the U.S. economy and the world. Anything we can do to assist the farmer in agricultural exports will benefit the total U.S. economy, and, therefore, it's going to strengthen the family farm networks.

If agriculture is being so efficiently served now at the export level, why is there such a fear of competition from banks for cooperatives? If there is any competitive advantage at the present time, it lies within the private sector and not with the farm credit system. Farmers are going to benefit from this flexibility, even though it may not drastically change the amount of grain that goes to co-ops, because the history of

co-ops is that they can set standards that competition has to come to; and I think this will be true in the export market.

I think our agricultural economy must be established and maintained as free enterprise under a free market system. This can only be accomplished if our cooperatives system is allowed to develop to its full potential. I'm grateful, Mr. Chairman, for the opportunity to appear before this committee, and I'll be pleased to respond to any questions you might have.

[The prepared statement of Mr. Noel follows:]

STATEMENT OF PAUL A. NOEL, HOPKINSVILLE, KY., PRESIDENT, BOARD OF
DIRECTORS, HOPKINSVILLE ELEVATOR CO., HOPKINSVILLE, KY.

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, I AM PAUL NOEL FROM HOPKINSVILLE, KENTUCKY. I AM A MEMBER OF A FAMILY-FARM OPERATION, WHICH INCLUDES 2,500 ACRES OF CROPS, INCLUDING CORN, SOYBEANS, WHEAT, AND TOBACCO. ALL MY INCOME IS GENERATED FROM OUR FARM OPERATION. WE ARE TOTALLY RELIANT UPON CROPS, AS WE HAVE NO LIVESTOCK. LIKE MANY OTHER GRAIN FARMERS IN THE UNITED STATES, I WORK VERY CLOSELY WITH OUR LOCAL COOPERATIVE ELEVATOR AND HAVE BEEN PRESIDENT OF THE BOARD OF DIRECTORS OF HOPKINSVILLE ELEVATOR COMPANY IN HOPKINSVILLE, KENTUCKY, SINCE 1968. WE WORK WITH APPROXIMATELY 1,500 FARMERS FROM THE WESTERN KENTUCKY AREA, PRIMARILY IN CHRISTIAN, TRIGG AND TODD COUNTIES. AS OUR COOPERATIVE HAS GROWN IN FACILITIES AND VOLUME IN SERVING THE MARKETING NEEDS OF OUR GRAIN FARMERS, WE HAVE DEVELOPED A BARGE-LOADING FACILITY ON THE CUMBERLAND RIVER, WHICH GIVES OUR FARMERS ACCESS TO THE EXPORT MARKETS AT THE GULF. APPROXIMATELY 70 PERCENT OF OUR GRAIN IS MOVING THROUGH OUR COOPERATIVE AFFILIATIONS IN THE EXPORT CHANNELS AT THE GULF. ALTHOUGH OUR LOCAL COOPERATIVE BUSINESS IS CURRENTLY FINANCED WITH THE ASSISTANCE OF THE BANK FOR COOPERATIVES, AND ALTHOUGH OUR VOLUME OF 4 MILLION BUSHELLS WOULD BE RELATIVELY SMALL COMPARED TO THE TOTAL OF GRAIN EXPORTS, I FEEL IT IS IMPORTANT THE FARM CREDIT SYSTEM BE GIVEN FLEXIBILITY TO SERVE AND REPRESENT THE FARMER'S GRASS-ROOTS INTERESTS IN EXPORTING. I APPRECIATE THIS OPPORTUNITY TO PRESENT MY VIEWS CONCERNING HR 4782, THE FARM CREDIT ACT AMENDMENTS OF 1979, AND WILL PARTICULARLY ADDRESS THE AREA OF BANKS FOR COOPERATIVES ENTERING INTO EXPORT FINANCING.

GIVEN THE GROWING VOLUME OF AGRICULTURAL PRODUCTION AND EXPORTS, WE GRAIN FARMERS HAVE BECOME MORE EXPOSED TO AND DEPENDENT UPON THE INTERNATIONAL GRAIN MARKETS' EFFECT UPON FARM PRICES. WE CANNOT CIRCUMVENT THE LAW OF SUPPLY AND DEMAND IF AMERICAN AGRICULTURE IS TO SURVIVE AS A PART OF THE FREE ENTERPRISE SYSTEM. IT IS IMPERATIVE THAT WE COME TO RELY LESS ON GOVERNMENT SUBSIDIES AND SET ASIDE PROGRAMS AND GAIN MORE RELIANCE ON THE EXPORTING OF GRAIN.

FARMERS HAVE ALWAYS STRIVED TO DEVELOP A WAY OF ACQUIRING A STRONGER VOICE IN THE MARKETPLACE. MOST COOPERATIVE GRAIN ELEVATOR OPERA-

TIONS, SCATTERED AROUND THE GRAIN-PRODUCING STATES, WERE DEVELOPED BECAUSE GRAIN FARMERS NEEDED A LOCAL MARKET THEY COULD DEPEND ON AND HAVE SOME CONTROL OVER. NOW FARMERS ARE INTERESTED IN DOING MORE GRAIN EXPORTING DIRECTLY, THROUGH THEIR FARMER-OWNED AND -CONTROLLED COOPERATIVES.

I HAVE SEEN INDUSTRY INFORMATION, WHICH INDICATES LOCAL GRAIN COOPERATIVES ARE RECEIVING ABOUT 40 PERCENT OF THE TOTAL OFF-THE-FARM SALES OF GRAIN. THIS IS INDICATIVE OF THE INVESTMENT AND COMMITMENT FARMERS HAVE MADE TO COOPERATIVES IN ACQUIRING LOCAL MARKETS; HOWEVER, WHEN YOU TAKE THE GRAIN A STEP FURTHER AND LOOK AT THE EXPORT CHANNELS AND EXPORT NEGOTIATIONS, OUR FARMER COOPERATIVES ARE HANDLING A VERY SMALL PERCENTAGE OF THE EXPORT BUSINESS TRANSACTED FROM THE UNITED STATES. AS A GRAIN FARMER, I FEEL WE MUST GAIN A MORE COMPETITIVE POSITION AND ACQUIRE THE ECONOMIC BENEFIT OF THESE TRANSACTIONS THROUGH OUR COOPERATIVES. ONE IMPORTANT BENEFIT WOULD BE THE RETENTION OF CAPITAL WITHIN THE AGRICULTURAL ECONOMY. EARNINGS GENERATED WITHIN THE FRAMEWORK OF PRODUCING AND MARKETING AGRICULTURAL PRODUCTS COULD BE RETAINED TO FURTHER BENEFIT FARMERS.

WHILE FARMERS WOULD BE BENEFITING FROM DOING BUSINESS THROUGH THEIR OWN CO-OPS THIS WOULD NOT DETRACT FROM THE DOMESTIC BENEFITS DERIVED FROM EXPORT SALES. IT IS A WELL PROVEN FACT AS TO THE CONSISTENT CONTRIBUTION EXPORT SALES OF FARM PRODUCTS MAKE TO THE U.S. BALANCE OF PAYMENTS. IT IS ALSO ESTIMATED THAT EACH DOLLAR OF EXPORT SALES GENERATES TWO DOLLARS OF DOMESTIC ECONOMIC ACTIVITY. THUS, THE PUBLIC INTEREST WOULD CONTINUE TO BE SERVED.

BECAUSE OF THE GROWING VOLUME OF GRAIN EXPORTS AND THE RESULTING FACT THAT OUR FARM PRICES ARE GREATLY INFLUENCED BY THE WORLD DEMAND, COMPETITION IN THE INTERNATIONAL GRAIN-TRADING AREA IS ALSO INCREASING. OUR FARMER COOPERATIVES MUST HOLD THEIR OWN, OR EVEN IMPROVE OUR FARMER'S POSITION IN THE INTERNATIONAL MARKET, TO PROTECT THE FARMER'S INVESTMENT IN HIS COOPERATIVE AND TO MAKE A MORE EFFICIENT USE OF THAT INVESTMENT FOR THE BENEFIT OF OUR DOMESTIC ECONOMY. I FEEL AMERICAN FARMER COOPERATIVES WILL BE EXPORTING A QUALITY PRODUCT, GIVEN THE FARMER CONTROL OF THESE COOPERATIVES. SEVERAL FOREIGN

GOVERNMENTS HAVE APPARENTLY EXPRESSED A PREFERENCE FOR BUYING FARMER GRAIN FROM AGRICULTURAL COOPERATIVES IN THE UNITED STATES AS A WAY OF ACQUIRING MORE DEFINITE ASSURANCE OF QUALITY. THE CRITERIA OF QUALITY AND RELIABILITY ARE EXTREMELY IMPORTANT IF WE ARE TO BUILD EXPORT TRADE ON A FIRM FOUNDATION THAT WILL CONSISTENTLY BENEFIT AMERICAN AGRICULTURE.

OUR FARMER COOPERATIVES ARE AND WILL BE INITIATING CONTACTS AND EXPANDING THEIR BUSINESS TO INTERNATIONAL MARKETS. FINANCING AND FINANCIAL SERVICES BECOME INCREASINGLY IMPORTANT ASPECTS OF EXPEDITING THESE TRANSACTIONS. THERE IS A BROAD RANGE OF SERVICES WHICH ARE NEEDED TO ASSIST OUR FARMER COOPERATIVES IN CONDUCTING SOUND BUSINESS ABROAD, AS WELL AS HERE AT HOME. THESE NEEDED SERVICES ARE COVERED IN THE PROPOSED LEGISLATION WHICH I AM SUPPORTING. AS THE BANKS FOR COOPERATIVES IN THE FARM CREDIT SYSTEM ARE PROVIDING NEARLY TWO-THIRDS OF THE CAPITAL USED BY FARMER COOPERATIVES, IT IS A NATURAL FOR US TO WANT TO UTILIZE THE BANKS' EXPERTISE AND KNOWLEDGE OF OUR OPERATIONS AS WE NEED SERVICES IN THE INTERNATIONAL AREA. THIS WILL BE SOMEWHAT OF A NEW AREA FOR BANKS FOR COOPERATIVES, AND THEY WILL HAVE TO COMPETE AND EARN THE INTERNATIONAL BUSINESS. I WOULD ENVISION A LARGE DEGREE OF COOPERATION BY THE BANKS FOR COOPERATIVES WITH DOMESTIC AND FOREIGN COMMERCIAL BANK SYSTEMS. KNOWING THE INTEGRITY OF THE BANKS FOR COOPERATIVES AND PRUDENT OPERATIONS DEMONSTRATED OVER THE PAST FORTY YEARS, I AM CERTAIN THEY WILL ALSO ENTER INTO THIS NEW AREA WITH THE SAME SOUND PRACTICES. THE FARMER OWNERSHIP AND CONTROL WILL DEMAND THE CONTINUED PRUDENT MANAGEMENT OF SERVICES TO MEMBER-BORROWERS. I DOUBT IF THE PROPOSED LEGISLATION WOULD HAVE AN IMMEDIATE EFFECT ON THE VOLUME OF AGRICULTURAL EXPORTS; HOWEVER, OUR EXISTING RELATIONSHIPS WITH THE BANKS FOR COOPERATIVES WARRANT THEIR BEING PROVIDED THE FLEXIBILITY TO ASSIST US THROUGH OUR COOPERATIVES IN INTERNATIONAL TRANSACTIONS. THIS IS ONLY ENABLING LEGISLATION AND NOT A REQUEST FOR FUNDING OR A COMPETITIVE ADVANTAGE OF ANY SORT. GIVEN THE BANKS FOR COOPERATIVES' UNIQUE UNDERSTANDING OF OUR FARMER COOPERATIVES AND THEIR SPECIALIZED FINANCING SERVICES, THEY ARE IN THE BEST POSITION TO MEET THE GROWING INTERNATIONAL NEEDS OF FARMER COOPERATIVES.

AS THE BANKS FOR COOPERATIVES ARE NOW LIMITED TO ONLY DOMESTIC SERVICES, COOPERATIVES CURRENTLY NEED TO UTILIZE OTHER FINANCIAL INSTITUTIONS TO HELP THEM WITH INTERNATIONAL ACTIVITIES. I FEEL RISKS COULD ACTUALLY BE REDUCED AND THE FARMER NEEDS BETTER SERVICE BY UTILIZING OUR STRONG RELATIONSHIPS WITH THE BANKS FOR COOPERATIVES AND THEIR UNDERSTANDING OF OUR UNIQUE-TYPE OF BUSINESS. GIVEN FINANCIAL SUPPORT AND SERVICES, WE SHOULD BE ABLE TO EXPAND OUR INTERNATIONAL MARKETS WITHOUT ASSUMPTION OF UNNECESSARY RISK. TODAY THE BANKS FOR COOPERATIVES ARE ACTUALLY BEING ASKED TO ABSORB RISK OF EXPORT TRANSACTIONS SERVICED BY OTHERS, WITHOUT HAVING THE LEGAL AUTHORITY TO MANAGE AND ENSURE THAT THE TRANSACTIONS ARE HANDLED CORRECTLY WITH APPROPRIATE INSURANCE AND OTHER RISK-MANAGEMENT TECHNIQUES.

IN SUMMARY, MR. CHAIRMAN AND OTHER MEMBERS OF THE SUBCOMMITTEE, I FEEL THE FARM CREDIT ACT AMENDMENTS OF 1979, HR 4782, ARE NEEDED TO ENABLE THE FARM CREDIT SYSTEM TO CARRY OUT ITS MISSION, AS OUTLINED IN THE 1971 FARM CREDIT ACT, "...TO IMPROVE THE INCOME AND WELL-BEING OF AMERICAN FARMERS, BY FURNISHING SOUND, ADEQUATE, AND CONSTRUCTIVE CREDIT AND RELATED SERVICES..." THIS PROPOSED LEGISLATION WOULD MERELY ENABLE THE BANKS FOR COOPERATIVES TO KEEP UP WITH THEIR COOPERATIVE OWNERS AS FARMERS EXPAND INTO THE INTERNATIONAL AREA. THIS BROADENED AUTHORITY WILL ALLOW THE BANKS FOR COOPERATIVES TO CONTINUE TO ADEQUATELY SERVE UNITED STATES AGRICULTURAL COOPERATIVES AS THE IMPORTANCE OF AGRICULTURAL PRODUCTION INCREASES IN THE UNITED STATES ECONOMY AND THE WORLD. ANYTHING WE CAN DO TO ASSIST THE FARMER IN AGRICULTURAL EXPORTS WILL BENEFIT THE TOTAL UNITED STATES ECONOMY AND THEREBY STRENGTHEN THE ECONOMIC BASE OF THE FAMILY FARMER. I AM GRATEFUL FOR THE OPPORTUNITY TO EXPRESS MY VIEWS BEFORE THIS SUBCOMMITTEE AND WOULD BE PLEASED TO RESPOND TO ANY QUESTIONS.

Mr. JONES of Tennessee. Our next witness is Mr. Dan Crumpton of Clarksdale, Miss., and he'll be followed by Mr. Billy Ross Brown of Oxford, Miss.

Mr. Crumpton, welcome. We are delighted that you could come and we will be glad to hear from you.

Mr. CRUMPTON. Thank you, Mr. Jones.

I'm submitting seven written statements in addition to mine from individuals in regard to this legislation, and I request they be entered in the record.

Mr. JONES of Tennessee. Without objection, they will become a part of the record. I might add that we have had a number of witnesses who have brought additional statements and support for the legislation, which the subcommittee appreciates very much. This is almost as good as someone coming and being heard when you have good bona fide statements such as that. We do appreciate it.

STATEMENT OF DAN F. CRUMPTON, JR., REPRESENTING CLARKSDALE, MISS., PRODUCTION CREDIT ASSOCIATION, FIFTH FARM CREDIT DISTRICT

Mr. CRUMPTON. Mr. Chairman, I am Dan Crumpton, Jr., of Clarksdale, Miss. I've been a member of the Clarksdale Production Credit Association for some 22 years, since returning home from the Navy to farm. I am now serving as a director of that production credit association. I have used PCA for most all of my short and intermediate term financial needs during this period. For my longer term financial needs, I have depended upon the Federal land bank. I also belong to the Coahoma County Farm Bureau, Delta Council, and various other farm-related organizations.

I appreciate the opportunity to appear before your subcommittee simply as a farmer who is a strong supporter of the farm credit system. I come before you this afternoon in full support of the amendments to the Farm Credit Act of 1971. One of the points I would like to mention specifically is the amendment allowing the Federal land banks and production credit associations to expand the scope of their services in the marketing and processing areas.

I think that most every farmer today realizes that possibly the greatest potential for increasing the profitability of the farm lies in a more orderly planned marketing system.

Better processing and marketing facilities certainly would be a help in this area as we farmers hopefully are gaining a little expertise in selling what we grow. Another point I would like to address is the opportunity of the PCA's to offer several insurance coverage to their members. Credit life insurance, for instance, is the opportunity of the PCA's to offer several insurance coverages to their members. Credit life insurance, for instance, is a part of my program of protection for my family that certainly is a justified service of the PCA. Who else is in better position to provide and know more fully my coverage needs than the place I'm getting the money?

I might add that in all of my years of acquiring coverage, there has never been any pressure or coercion of any kind to take this insurance. This is true of any of the related services of PCA. Let me give you an

example of this. Several years ago, after a good many years of buying most of my credit life from PCA, a young friend of mine got into the life insurance business.

Mostly as a favor to him as a friend, I dropped the PCA credit life and acquired a like amount from my friend. Never was one thing said, except that I did not want the coverage that year; no pressure, no big selling job from the officials of the production credit. Incidentally, after a couple of years, my friend was gone doing something else, and I returned the insurance business to the PCA where it was much more convenient and easier to handle.

Another area of insurance coverage that is a natural for PCA's to offer is that is a natural for PCA's to offer is property insurance.

Again, who else knows the needs, knows the value of farm property, farm equipment, better than the people providing the finances to purchase it? Who is in a better position to annually analyze our coverage needs? PCA's seem the logical place to provide the opportunity for farmers to protect themselves from property losses which a program that can be kept current and, therefore, economical. In making and renewing loans on an annual basis, an insurance program could certainly be kept current and up to date.

Certainly, realistic values and, therefore, realistic coverage could be determined at this time. Again, no pressure or coercion is used. Personally, most all of my property insurance is with independent agents, so again, the choice is with the individuals. For us farmers to survive, we need every competitive option we can get on whatever we purchase, and that should include various forms of insurance. is with independent agents, so again, the choice is with the individuals. For us farmers to survive, we need every competitive option we can get on whatever we purchase, and that should include various forms of insurance.

So in summary, I would urge your support of H.R. 4782, as introduced. I believe, Mr. Chairman, that any attempt to amend this legislation could result in a weaker program or even the loss of the whole package.

Thank you for your time.

Mr. JONES of Tennessee. Thank you very much, Mr. Crumpton, for the statement and the accompanying statements that you brought along they will be inserted at the end of this day's testimony.

Mr. Billy Ross Brown of Oxford, Miss. Mr. Brown will be followed by Mr. Frank Borthick, a director of the Cumberland Electric Membership Co-op at Springfield, Tenn.

Mr. Brown, we're delighted that you are here.

Mr. BROWN. Thank you, Mr. Chairman.

STATEMENT OF BILLY ROSS BROWN, JR., REPRESENTING OXFORD, MISS., PRODUCTION CREDIT ASSOCIATION, FIFTH FARM CREDIT DISTRICT

Mr. BROWN. My name is Billy Ross Brown, and I am a farmer from Lafayette County, Miss.

My family has been doing business with Oxford Production Credit Association for over 40 years. I am here today to request that you support bill No. H.R. 4782, as introduced, which will enable the production credit associations of Mississippi to continue offering prop-

erty insurance as a financially related service, as is done in our neighboring States of Alabama and Louisiana.

It is my opinion that the property insurance program is an essential and valuable farm-related service for PCA members. I feel that the competition which is created through this program will be very beneficial to the farmer, and that under our present free enterprise system, competition of this nature should be allowed to develop.

The farmers in my area are very interested in seeing the establishment of another optional source of property insurance. I feel that there is a definite need for the production credit association to offer its members property insurance. In many cases, the PCA's have already been able to provide needed coverage where there was none, to provide significant savings on insurance premiums with comparable or more adequate coverage, and to provide more convenience to the PCA members.

In two particular cases with which I am familiar, the farmers were able to receive comparable insurance coverage on their farm equipment with what I feel was a tremendous savings on their annual premiums. One of these farmers was able to save \$838, and the other saves \$693. As far as coercion is concerned, as a PCA member, the staff members at PCA have never forced me to purchase any of their financially related services, and I do not know of anyone who has been coerced by PCA. To my knowledge, coercion has never been in any way implied.

In summary, I feel that it is very important for the production credit associations to be able to offer its members a farmer-oriented insurance service; and it is my belief that their frequent personal contact with us and their knowledge of our operations enable them to provide this service in a very efficient manner.

Thank you, sir. If you have any questions, I'll be happy to answer them.

Mr. JONES of Tennessee. Thank you, Mr. Brown. We may have some. We're going to wait and see.

Mr. Frank Borthick, director of the Cumberland Electric Membership Corp. at Springfield, Tenn.

Frank, thank you for being here. We appreciate the interest that you've shown. Before you begin, let me ask if Frank Perkins is in the room? He's on the witness list, but I have not seen him today, the Tennessee Electric Co-op. Apparently not.

VOICE. Mr. Jones, Mr. Perkins is preparing a statement to get in to you, but the time is such that he was not able to be here today.

**STATEMENT OF FRANK BORTHICK, GRAIN AND TOBACCO FARMER,
SPRINGFIELD, TENN.; DIRECTOR, CUMBERLAND ELECTRIC MEM-
BERSHIP CORP., CLARKSVILLE, TENN., FOURTH FARM CREDIT
DISTRICT**

Mr. BORTHICK. Mr. Chairman and members of the subcommittee, I'm Frank Borthick of Springfield, Tenn. I farm about 640 acres on which the primary crops are soybeans, wheat, and dark tobacco.

For the past 16 years, I have served as a member of the Cumberland Electric Membership Corp., which serves some 4,100 members in 5 north-central Tennessee counties.

In our area, we're in an area of considerable growth. To give you an example, in 1967, Cumberland Electric borrowed \$7,838,000 for new construction of the years 1978 and 1979.

This past week for the years 1980 and 1981, a loan of \$5,690,900 was approved.

I'm speaking primarily to the eligibility criteria that rural electrics are required to have before they can borrow money from the bank of cooperatives.

In our area all of this money that we borrow is not for farmers. This is for people that are moving out of the city, and as these people move out in our area, or as they take electric current from an electric co-op, they become a member.

It's not quite so as a supply co-op where you have other criteria, but taking current from an electric co-op, you become a member, and I think it's imperative that this eligibility requirement be lowered.

It used to be 90 percent, and then in 1971 it dropped to 80 percent; in 1975 to 70 percent. I think that the congressional action was right in doing this, and I encourage you to decrease this criteria even to 60 percent, as in this bill.

In August in my electric co-op we had 77 meter sets. It seems that even the high interest rate in our particular area is not curtailing the money that Cumberland must borrow to make these installations for these new people.

I served on Robinson Farmers Supply Co-op board for 12 years, and on Tennessee Farmers board for 9 years, and I know that the bank of cooperatives has a history of obtaining sufficient and competitive priced funding from the private money sector.

When these 60-percent guidelines go in effect, the bank of cooperatives will be another source of capital for some rural electrics and will give the eligible ones the opportunity to shop for the most effective financing available.

Savings should show up in the electrical service.

So in summary, Mr. Chairman, the revision of the bank of cooperatives requirements is necessary to assure the rural electric community, in some instances, a new source of financing, and in other instances, a continuing source of funds to underwrite the cost of providing electric service to an ever-increasing number of this State's and Nation's population.

Mr. Chairman, I'd like to make one statement concerning the grain overseas. As a grain producer and for the farmer producers to receive every bit that he can out of any commodity, I would like to see all producers of all commodities, the farmer or the co-op hold ownership of this commodity until it reaches the ultimate consumer or just as far as we can go with that before it reaches the consumer.

Mr. Chairman, thank you for inviting me and if any of my comments have raised any questions, I'll be happy to answer them.

Mr. JONES of Tennessee. Thank you very much, Frank, and we do appreciate your being here.

[The prepared statement of Mr. Borthick follows:]

STATEMENT OF FRANK BORTHICK, GRAIN AND TOBACCO FARMER; DIRECTOR, CUMBERLAND ELECTRIC MEMBERSHIP CORPORATION, CLARKSVILLE, TENN.

I AM FRANK BORTHICK OF SPRINGFIELD, TENNESSEE. MY FAMILY AND I FARM ABOUT 640 ACRES ON WHICH THE PRIMARY CROPS ARE SOYBEANS, WHEAT, AND DARK-FIRED TOBACCO. FOR THE PAST 16 YEARS, I HAVE SERVED AS A MEMBER OF THE BOARD OF DIRECTORS OF CUMBERLAND ELECTRIC MEMBERSHIP CORPORATION, CLARKSVILLE, TENNESSEE. THIS COOPERATIVE HAS EXPERIENCED CONSIDERABLE GROWTH IN THE PAST SEVERAL YEARS AND CURRENTLY PROVIDES ELECTRICAL SERVICE TO APPROXIMATELY 41,000 FARMERS AND RURAL RESIDENT CONSUMERS IN PORTIONS OF FIVE NORTH CENTRAL TENNESSEE COUNTIES. FROM MY VANTAGE POINT AS A DISTRIBUTION COOPERATIVE DIRECTOR, I AM KEENLY AWARE OF NOT ONLY OUR COOPERATIVE'S INCREASING NEED FOR DEBT FINANCING, BUT FEEL QUITE CERTAIN THE 900 OTHER DISTRIBUTION COOPERATIVES THROUGHOUT THE NATION ARE EXPERIENCING SIMILAR REQUIREMENTS. IT IS MY OPINION THE FARM CREDIT SYSTEM, AND MORE PARTICULARLY THE BANKS FOR COOPERATIVES (BCs) HAVE, IN THE PAST AND CAN IN THE FUTURE, PLAY A VITAL PART IN THE PROCUREMENT OF FUNDS NECESSARY TO MEET THE REAL AND INFLATED GROWTH WHICH IS ANTICIPATED FOR THE NATION'S RURAL ELECTRIC DISTRIBUTION COOPERATIVES. TO THAT END, I APPRECIATE THIS OPPORTUNITY TO EXPRESS MY VIEWS CONCERNING HR 4782, THE FARM CREDIT ACT AMENDMENTS OF 1979. MORE SPECIFICALLY, MY COMMENTS TODAY WILL DEAL WITH THE NEED TO AMEND THE EXISTING ELIGIBILITY CRITERIA, WHICH ARE PREREQUISITE TO BORROWING FROM THE BANKS FOR COOPERATIVES.

IN THE MAY ISSUE OF THE RURAL ELECTRIFICATION MAGAZINE, I READ OF A VERY INTERESTING TREND, WHICH IS TAKING PLACE IN THE RURAL ELECTRIC INDUSTRY AND WHICH PROVIDES A VERY REVEALING PICTURE OF HOW RURAL ELECTRIC FINANCING HAS CHANGED IN RECENT YEARS. AS LATE AS 1971, 97 PERCENT OF THE DEBT FUNDS NEEDED TO FINANCE RURAL ELECTRIFICATION WAS OBTAINED FROM FEDERAL SOURCES. IN CONTRAST, IT IS ESTIMATED THAT 88 PERCENT OF THE 1979 FINANCING REQUIREMENTS WILL BE OBTAINED FROM NON-GOVERNMENT SOURCES. I HAVE NO REASON TO DOUBT THIS TREND, WHICH HAS BEEN PROMPTED IN PART BY THE RURAL ELECTRIFICATION ADMINISTRATION'S CONCURRENT SUPPLEMENTAL FINANCING PROGRAM, WILL CONTINUE AND POSSIBLY INCREASE IN THE FUTURE. A SIGNIFICANT PORTION OF THIS NON-GOVERNMENT FINANCING COULD BE PROVIDED BY THE BCs.

AS A BOARD MEMBER, THESE STATISTICS SPOTLIGHT RURAL ELECTRIFICATION'S GROWING DEPENDENCY ON HISTORICALLY NON-TRADITIONAL FINANCING SOURCES. OUR NATIONAL RURAL ELECTRIC LEADERS CONTINUALLY REMIND US OF THE SYSTEM'S GROWING APPETITE FOR DEBT CAPITAL AND, THUS, THE NEED TO DEVELOP AND MAINTAIN ALTERNATIVE SOURCES OF BOTH SHORT-TERM AND LONG-TERM FUNDING.

AS I UNDERSTAND IT, THE BANKS FOR COOPERATIVES WERE ESTABLISHED SOME 45 YEARS AGO TO PROVIDE A SOUND AND COMPETITIVE SOURCE OF CREDIT FOR AGRICULTURAL COOPERATIVES WHICH WOULD, IN TURN, BENEFIT THE INDIVIDUAL COOPERATIVE MEMBERS. ORIGINALLY, 90 PERCENT OF A COOPERATIVE'S VOTING MEMBERS HAD TO BE AGRICULTURAL PRODUCERS TO QUALIFY THE COOPERATIVE FOR FINANCING FROM A BC. AS THE RURAL COMMUNITY CHANGED, CONGRESS SAW THE NEED TO AMEND THIS ELIGIBILITY REQUIREMENT TO 80 PERCENT IN 1971 AND FURTHER REDUCED THE REQUIREMENT TO 70 PERCENT IN 1975 FOR RURAL UTILITIES. FROM MY VANTAGE POINT, THESE CONGRESSIONAL ACTIONS WERE NOT ONLY CORRECT, BUT ESSENTIAL TO ASSURE AGRICULTURAL COOPERATIVES THE CONTINUANCE OF A VIABLE AND PROVEN SOURCE OF FINANCING. ONE OF THE PROVISIONS OF HR 4782 CALLS ATTENTION TO THE NEED TO ONCE AGAIN ALTER THIS ELIGIBILITY REQUIREMENT AS MORE AND MORE NON-FARMERS MOVE INTO RURAL AREAS PRESENTLY BEING SERVED BY RURAL ELECTRICS AND OTHER AGRICULTURAL COOPERATIVES. SINCE RURAL ELECTRIC COOPERATIVES MUST PROVIDE SERVICE TO RURAL RESIDENTS NO MATTER THEIR VOCATION, THE EXISTING 70 PERCENT ELIGIBILITY GUIDELINE, IN THE FACE OF EVER-INCREASING PERCENTAGES OF NON-AGRICULTURAL PRODUCER MEMBERS, MAKES THE NEED TO CHANGE THIS REQUIREMENT EVEN MORE CRITICAL. I AM NOT SURE HOW MANY ADDITIONAL DISTRIBUTION COOPERATIVES WOULD BE ELIGIBLE TO BORROW FROM THE BCs UNDER THE PROPOSED 60 PERCENT GUIDELINE; HOWEVER, LOGIC WOULD DICTATE A GREATER NUMBER OF DISTRIBUTION COOPERATIVES THROUGHOUT THE COUNTRY COULD QUALIFY IF THE PROPOSED 60 PERCENT REQUIREMENT IS ENACTED.

AS A DIRECTOR OF A DISTRIBUTION COOPERATIVE THAT DOES NOT PRESENTLY BORROW FROM THE BANK FOR COOPERATIVES, I TAKE A CERTAIN AMOUNT OF COMFORT IN KNOWING THE BCs ARE BECOMING AN INCREASINGLY SIGNIFICANT SOURCE OF BOTH LONG AND SHORT-TERM FINANCING FOR RURAL ELECTRIC

COOPERATIVES SUCH AS CUMBERLAND ELECTRIC. THE PERFORMANCE OF THE FARM CREDIT SYSTEM AND THE BANKS FOR COOPERATIVES IN OBTAINING SUFFICIENT AND COMPETITIVELY PRICED FUNDING FROM THE PRIVATE MONEY SECTOR IS WELL KNOWN IN OUR INDUSTRY. THIS FUNDS **PROCUREMENT** EXPERTISE, WHEN LINKED WITH THE PROPOSED REDUCTION IN THE REQUIRED LEVEL OF VOTING-PRODUCER MEMBERS, WOULD PROVIDE AN ALTERNATIVE, **COMPETITIVE** SOURCE OF FINANCING TO AN INCREASING NUMBER OF DISTRIBUTION COOPERATIVES. THE PRESENCE OF THE BANKS FOR COOPERATIVES IN RURAL ELECTRIC LENDING GIVES COOPERATIVES THE OPPORTUNITY TO SHOP FOR THE MOST COST-EFFECTIVE FINANCING AVAILABLE AND, THUS, BE ABLE TO PASS THESE REALIZED SAVINGS ON TO ITS MEMBERS IN THE FORM OF LOWER COST ELECTRICAL SERVICE.

IN MY OPINION, REDUCING THE ELIGIBILITY REQUIREMENT TO 60 PERCENT WILL NOT ONLY MAKE MANY NON-BORROWING COOPERATIVES ELIGIBLE TO BORROW FROM THE BCs, BUT WILL ALSO HELP ASSURE A CONTINUING SOURCE OF FINANCING TO THOSE **COOPERATIVES** WHICH PRESENTLY RELY ON THE BCs FOR BOTH SUPPLEMENTAL LONG-TERM FINANCING AND SHORT-TERM LOAN ASSISTANCE. I UNDERSTAND EXISTING BORROWERS MUST **PERIODICALLY** REAFFIRM THEIR ELIGIBILITY TO BORROW; AND, THEREFORE, THE PROPOSED 60 PERCENT GUIDELINE WOULD HELP THESE ASSOCIATIONS REMAIN ELIGIBLE TO OBTAIN FINANCING FROM THE BCs WHILE KEEPING PACE WITH THEIR EVER-CHANGING MEMBER PROFILE.

IN SUMMARY, IT IS MY OPINION, A REVISION IN THE BCs ELIGIBILITY REQUIREMENT IS NECESSARY TO ASSURE THE RURAL ELECTRIC COMMUNITY, IN SOME INSTANCES, A NEW SOURCE OF FINANCING AND, IN OTHER INSTANCES, A CONTINUING SOURCE OF FUNDS TO UNDERWRITE THE COST OF PROVIDING ELECTRICAL SERVICE TO AN EVER-INCREASING NUMBER OF THIS STATE'S AND NATION'S POPULATION. THANK YOU FOR INVITING ME TODAY. IF MY COMMENTS HAVE PROMPTED ANY QUESTIONS, I WILL BE HAPPY TO ANSWER THEM AT THIS TIME.

Mr. JONES of Tennessee. Our next witness is Mr. Earl Jackson of Mobile, Ala. He'll be followed by Mr. Warren T. Price, Jr., of Echo, La.

**STATEMENT OF EARL G. JACKSON, COMMERCIAL FISHERMAN,
BAYOU LA BATRE, MOBILE COUNTY, ALA; MEMBER, BAY MIN-
ETTE PRODUCTION CREDIT ASSOCIATION**

Mr. JACKSON. Mr. Chairman, I'm in the commercial fishing industry at Bayou La Batre, Ala., and I am a member of the Bay Minette Production Credit Association.

I'm in the fishing industry in two ways. One, I'm the owner of a shrimp trawler, and two, I'm controller of Quality Marine, a builder of steel hull fishing vessels.

First: I want to thank you for supporting the Weaver bill last year, which made it possible for me to become a PCA member and to obtain suitable financing for my fishing boat.

Other fishermen in my area are able to benefit from this bill, also.

I strongly support the provisions in the current farm credit legislation which will affect the fishing industry. Based on what I have read about this legislation, it will make it possible for even more fishermen to benefit from the services offered by the entire farm credit system.

The fishing industry is just like the rest of our economy. We are hit very hard with inflation for everything we buy, especially fuel to operate our boats and the boats themselves.

Yet we have not had the advantages of adequate financing with reasonable terms, which other segments of the economy have enjoyed for years.

As controller of Quality Marine, I help some of our customers obtain financing for their fishing vessels, and right now, other than going through PCA, commercial banks will only give us 7 years' financing with very high interest rates.

Other commercial lending institutions will go to 10 years, but they charge anywhere from 4 to 5 percent over prime, which makes it impossible to operate a fishing vessel profitably.

Even though passage of these amendments will mean more competition from my PCA, I believe this legislation will broaden the scope in terms of financing for fishermen, and I strongly recommend passage by the Congress.

Thank you.

Mr. JONES of Tennessee. Thank you very much, Mr. Jackson, and you are the first gentlemen that we've had as a witness who was in the fishing industry.

I appreciate your mentioning the Weaver bill. It was not controversial. It just had to bear some education before we could pass it because it was new, and I think that Chairman Foley of the full committee contributed a great deal to help in passing that bill, and I'm sure that the fishing industry is going to be looked upon more and more by the farm credit administration as time moves on and by some of the changes in the rules and the laws that we have regarding fishing in this country.

Mr. Warren Price, Jr. Welcome, Mr. Price, we are glad to have you,

and you'll be followed by Mr. T. Hermann Vann of Capshaw, Ala. He's the last witness on the list. If there's anyone else here who has a statement he'd like to make, we'll accept it or take the time to listen to you if you want to be heard.

**STATEMENT OF WARREN T. PRICE, JR., FARMER, REPRESENTING
BATON ROUGE, LA., PRODUCTION CREDIT ASSOCIATION, FIFTH
FARM CREDIT DISTRICT**

Mr. PRICE. Thank you, sir. I am a dairy and beef farmer from Ethel, La. I'm a member of the board of the Baton Rouge PCA; also a member of the Federal land bank, and we are a little bit different. I'm a member of the Parish Farm Bureau. I think we're the only State in the Union that has a parish. So when I'm talking, I want you to understand that I'm a county.

I come to you in support of your H.R. bill 4782. I'd like to see it passed as it was submitted.

I think it is a very good farm credit bill and I think it will go a long ways toward helping us with our farm credit needs.

Also, I would like to give some special attention to the insurance program that has been a pilot program in our area, which is the fifth farm credit district.

When the president of the Baton Rouge Production Credit first brought it to our board, I think I was the first one that said to him, "Listen, I may have some strong feelings about this. I need to go back into the territory that I serve and talk to some of the farmers, talk to some of the insurance people, talk to maybe the farm bureau people."

I went back. I talked to the farm bureau president in my parish. He said, "Man, that's not anything but competition." He says, "I can't be against competition." He said, "I'm for it. In fact, maybe it will make our agent get up and go to work."

The next thing was that I talked to the largest, actually the largest independent insurance agent. At that time he said to me, "You all are loaning money. You are going to make people buy insurance from you."

I said, "Well, you may have a good point, but if that happens, I wish you would be the first one to point this out to us if you hear of it."

He said, "If that doesn't happen, then I have no qualms about you all being in the insurance business."

I talked to a number of the farmers in the area. I asked them if they felt like their needs were met. Many of them said they really didn't know, but that they would like to find out if their needs were actually met.

Some of them were PCA members; some of them were not PCA members.

So I went back to our board meeting after I had canvassed my area and told the board and the president what I had actually found out. So we started with our program.

Actually, the independent insurance agent that I went to was not a member of PCA at that time, but since then he has become one of our largest borrowers, and we have no problems in doing business in insurance with him at all.

Also, the farm bureau man, just yesterday I asked him did he have any problems with us being in the insurance business. He said, "No, it has actually made them to go work and that they have actually written more insurance since then."

I thank you, sir.

Mr. JONES of Tennessee. Let me ask you a question, Mr. Price, before you step down. Have you written very much insurance in your PCA?

Mr. PRICE. I would say probably about 15 percent of our members, which I think we have about 1,100 members.

Of course, I stress as being a member of the board to the president, and I know he stresses it to employees because I've seen it come down in writing, that this is pure-dee optional and that nobody is told they have to buy insurance from us. There's strictly a choice.

Mr. JONES of Tennessee. How long have you had the pilot program?

Mr. PRICE. Since 1977. In fact, I was the first one to purchase it in our area.

Mr. JONES of Tennessee. You are a convert, aren't you, all the way?

Mr. PRICE. Yes, sir, I am.

Mr. JONES of Tennessee. We appreciate your being here very much.

[The prepared statement of Mr. Price follows:]

Statement of
Warren T. Price, Jr.
On Behalf of the
Baton Rouge, Louisiana, Production Credit Association
Fifth Farm Credit District

My name is Warren T. Price, Jr. I am speaking to you as a farmer who is interested in recent congressional legislation regarding the Farm Credit System. I have been a member of the Baton Rouge Production Credit Association for the past fifteen (15) years. I also serve as Chairman of the Board of Directors of that Association, a position I have held for six (6) years. I am also a member of the Baton Rouge Federal Land Bank Association and the Feliciana Parish Farm Bureau, among other organizations.

I would like to stress my support for H.R. 4782 as it was introduced. With this legislation, the Farm Credit System will be enabled to update its capacity to better serve the needs of its members. This will include expanding authority to finance processing and marketing facilities at no cost to the taxpayer.

However, there are those who advocate amending the proposed legislation to prohibit existing PCA authority to offer property insurance to its members. I feel the importance of this service cannot be ignored. Prior to Baton Rouge PCA offering property insurance to its members I did a personal survey of many farmers in my area. Some of these farmers were PCA members and some were not. I wanted to get their own feelings on PCA offering this type service. I received no negative responses to the idea, in fact, every farmer I talked with felt he would welcome the competition to present insurance choices. Competition among businesses is the American Way. PCA members are the only group to benefit from this service because they are the owners of the Association.

Speaking as Chairman of the Board of Directors of Baton Rouge PCA, I would like to point out just how important the competition that PCA generates by offering related services is.

When the Board of Directors approved our Association to sell insurance we were striving to see that an additional need of the farmer was met. I feel this has been done through the selling of property insurance. The farmer's need for the service was carefully studied. We felt that PCA could fill that need in many ways. The frequent on-farm contact the members have with the employees was one highlight. Because PCA is agriculturally orientated, there is a unique sensitivity to the farmer's business and a deep understanding of their insurance needs.

Baton Rouge PCA employees receive no compensation whatsoever for selling insurance. At no time would it be possible for pressure to be used in selling this service because the members own the Association themselves. The members truly benefit in every way from having a complete service available on a strictly optional basis. Personally, I have never been forced to purchase any of PCA's services nor do I know of anyone who has.

I personally believe in the cooperative concept as an aid which allows farmers to collectively do a better job of managing their farm business. I have been utilizing cooperatives for years for the purchase of farm supplies, for rural electricity and for obtaining farm credit from PCA and FLB. Therefore, I can see no reason for not using the same proven concept for buying insurance and other related services from our farmer owned PCA.

In summary, let me state that I feel a good Farm Credit legislative package has been introduced, which will benefit the American farmer. I urge you to do everything possible to see that it is passed as introduced.

I am grateful for this opportunity to express my views on this legislation and thank you for your time. I would be glad to answer any questions that you may have.

Mr. JONES of Tennessee. Mr. T. Herman Vann, welcome to the podium. You may be the last witness.

STATEMENT OF HERMAN T. VANN, FARMER, CAPSHAW, ALA.

Mr. VANN. Congressman, let me thank you for holding these hearings around over the territory where farmers like myself can appear.

I think this is quite a service and one that I've thoroughly enjoyed. I was here for your first witness yesterday morning and sat through all of the hearings, and I've thoroughly enjoyed all of them.

Sir, I am delighted that we have this bill for our consideration. I want to thank you and the Agriculture Committee and other members of the House over the years for your support of various legislation that's benefited those of us in the farming business.

Particularly as a farmer, I'm urging the support of House bill 4782.

Now, let me say that I'm a farmer in Limestone and Madison Counties of the Tennessee Valley, farming about 2,000 acres of row crop land, primarily in cotton and soybeans.

Now, I am a stockholder in some farm credit organizations, Huntsville Production Credit Association being one of them, the Federal Land Bank Association being another.

Naturally, I'm also a member of these organizations; but, sir, there's a little bit of difference in being a member and being a stockholder.

I'm a member of a number of organizations. I'm a member of the farm bureau, for instance. I could name a number of organizations I'm a member of; but a stockholder has some financial interest in the ownership and the profits or the losses that are derived in the operation of his business.

So for that particular reason, I'm supporting the bill that you have before you in its present form. I certainly hope it can be enacted as it is, and especially I would like to address just a few remarks to the insurance section which has been so adequately covered here this morning.

Congressman, I want to thank you for your patience and your colleague's patience.

You mentioned yesterday you wanted some facts. I think we've presented some facts here to you today, sir. The gentleman who preceded me presented some facts.

We're not trying to hurt independent insurance people, my farm bureau friends, or anyone else.

Let me tell you a personal experience. In 1974, in April, devastating tornadoes hit north Alabama. Some of you people are used to these tornadoes. They were new to us up through the Tennessee Valley. My Mississippi friends know more about them than we know, but we had them in 1974.

The farm adjacent to my farm, 18 people were killed, and in my lifetime that I've been farming and been a member of some of these organizations for 39 years, and I've been farming even longer than that, but I've never known 18 people to be killed all over north Alabama in one tornado, but that many people were killed on the farm adjacent to mine.

When that tornado had gone through and people began to look at the insurance coverage they had, they found in most instances their coverage was only a small fraction of what they needed to replace their farm buildings.

In my farm with some \$500,000 to \$600,000 of value in property and in equipment, and until I began carrying my insurance with my local PCA, my agent had visited my farm for a personal inspection less than five times in all the years that I carried insurance.

Now, he'd see me on the streets in Huntsville and we'd go in and drink a cup of coffee or he'd send me a bill and say you owe me so much money. He's a good man, he's a good friend of mine, is right today.

We're not opposing independent insurance people by any means, but my field man who calls on my farm is better equipped, as has been so, I think, forcefully brought out here this morning, to know the values, my needs, to keep up with my business than my insurance agent who lives in Huntsville, who would have to spend an hour or two to come out to even see me, if he got me at home; whereas, he's got a big business in a metropolitan area, more than he can take care of.

I submit to you, sir, that the ability to offer this collateral and property insurance has benefited me personally to a great extent, and to many of my farmer friends, and not only to my farmer friends who carry insurance through PCA, but where they are carrying it through other agents, because it is helping the entire industry to see that more adequate coverage is made available.

There have been many things brought out here in this hearing. I've been very much impressed with them.

I liked your soil conservation hearing yesterday. I thought Mr. Collins was talking about my farm, but particularly, because that applied to me, everything that he said, and the amount of money that we've spent in it.

But this hearing, sir, you said in the beginning you were introducing the bill at the request of the Farm Credit Administration; but I hope as these hearings proceed and evidence is gathered, that you're going to be able to find real pride in the sponsorship of this, because, sir, in my lifetime in farming, I think that this is an improvement to the Farm Credit Act, which has already benefited me and the other witnesses who have testified up here.

We have no coercion for anybody buying insurance. It's just a service we want to offer.

I have neighbors that borrow from PCA, but they've got relatives in the insurance business. I have never heard—I'm not on the board of directors—but I have never heard any of my neighbors saying, "Well, that PCA man told me I'd better buy my insurance from him."

In my opinion, that's not done anywhere, and I was glad to see your colleague have the information put to him very straight that our local PCA's pay taxes just like all other business sectors in the community; that's our local PCA's.

Our field people, that service insurance, receive no fees. I told you, I was a stockholder.

If there's income, and there is income, from writing insurance, that income becomes part of the profits of my organization; and, therefore, helps the financial statement of the company that I have stock in.

So, sir, thank you for your patience, and I'm going to conclude by saying that this has been a revelation to me to appear before this committee and see your patience and diligence with which you have pursued these hearings.

I thank you, sir. We're indebted to you.

PREPARED STATEMENT OF HERMAN T. VANN, CAHAW, ALA.

Congressman Jones, I am Herman T. Vann of Capshaw, Alabama. I appreciate this opportunity to appear before this committee to express my views in support of HR 4782.

I farm 1200 acres of cotton, 1200 acres of soybeans, and 438 acres of corn in Limestone County, Alabama in the Tennessee Valley area of North Alabama.

The Huntsville PCA serves over 1200 farmers in seven Northeast Alabama counties, providing over \$37 million of credit to these farmers. I have been a member of this association for 39 years and served on its Board of Directors for some 31 years. I am also a member of the Federal Land Bank of Decatur, Alabama.

Congressman, I commend you for your sponsoring the Farm Credit Act Amendments of 1979. I fully support this legislation as introduced and urge you to continue your support of this legislation as presented without any additional amendments.

The Farm Credit System has grown over the years to be a very dependable source of credit for the farmer. It is owned, operated, controlled by and for the farmer that uses its services.

In the early years of the system, the government had funds invested to help with its initial funding. As the system grew and developed financially, the government asked that their initial investment be repaid. The farmer-owners repaid all the borrowed funds plus interest without any cost to the taxpayers of this nation.

In order to continue to service and meet the growing needs of the farmer, the Farm Credit Act of 1971 permitted the system to provide closely related services to its members. This provided a means for my association to pro-

vide needed operating capital and keep my interest cost at a reasonable level. As you know, Congressman, interest cost is now a very significant part of our cost of production. Buying Property Insurance and Credit Life insurance from my PCA offers me the opportunity, not only to provide reliable coverage for me at a reasonable cost, but it also lets me purchase these needs from my own system and help keep my interest cost down.

Also, I might point out that these services offered by my PCA are strictly optional to me. I have over \$500,000 of farm equipment and buildings which I must insure against loss. At no time has PCA forced me to purchase any of its services. Coercion has never been implied at any time and I know of nobody that has ever been coerced to purchase any of the services offered through my PCA.

PCA employees and management receive no writing fee or commission from these insurance programs and all the income derived from these programs is re-invested into my PCA to help meet operating costs.

PCA employees have a good working knowledge of my farming operation by visiting and working with me during the year. Service from my insurance agent prior to PCA left a great deal to be desired. He did not visit with me periodically to gain an understanding of my needs, nor did he sit down with me regularly to review my coverage. The only time I heard from him was when I received a bill. PCA has the coverage I need and the options available to me that I want.

Again, I strongly support the Farm Credit Act Amendments as presented and oppose any changes in the legislation which would limit my option to purchase my insurance needs from whom I choose.

I appreciate the opportunity to express my views on this legislation and I will be happy to answer any questions you might have.

Mr. JONES of Tennessee. Thank you, Mr. Vann.

It is a grueling task. It's a difficult task to travel all over the country and listen to testimony.

Yet I'm one who believes that if a job is to be done, it has to be done right; and as I said in the opening yesterday morning, and as I said in Hutchinson, Kan., and also in Aberdeen, S. Dak., I don't believe that the testimony is the same when you come out and get it as it is in the Nation's Capital. I like it out here.

I don't think it's going to be necessary for any further discussion, except I want to do a summary.

Does anybody else have a statement they want to make or anything they want to say?

This has been an informal hearing. All we've done is put it down in the record so we can all take a look at it when we get back.

If anyone does have a statement, I'm still patient. I'm willing to listen.

I'm sorry Mr. Madigan had to leave, but it's almost impossible to get more than two members of a subcommittee to go to a hearing like this out in the country, and it's expensive to travel and we try to hold the cost down. Even one could do it, but we like to be fair by having both political parties represented at these places, and we feel if we have at least two, we have a sufficient number. We had three in Hutchinson, but we only had two in Aberdeen.

I'm looking over just what's been said this afternoon, and it seems to me that there was no controversial subject that was raised.

Did any of the staff catch anything that I need to ask about?

The voting capital was discussed like it has been before. I don't think anybody has any problems with that, as far as reduction in the percentage of representation is concerned. I think that's a point in the progressive direction of this country, because as the co-ops serve more people and we are trying to move more people into the rural areas, why, we can't do anything but be aggressive in that direction.

The marketing and processing area has been well covered.

The 85 percent provision of the FLB's for land appraisals, or at least above 85 percent, has been well covered in these 2 days of hearings, and I want to say to you that I honestly believe there's no problem there at all.

If there was ever a time in this country that the FCA should be appraising land at what it's really worth, it's today, it seems to me.

I think I saw this in U.S. News and World Report a few days ago, that people who had invested in land had profited more than any other group of investors unless it was the people who bought gold. Everybody can't buy gold and everybody can't buy land.

The insurance program has been covered. I think there's been a good argument for and some argument against continuation of the insurance program.

The 10-year loan for the PCA's, operating loans, has been stressed at this hearing. I heard nothing about it at the other two hearings in South Dakota and Kansas.

I even asked and got no conversation about it to any great degree, but a lot has been said here.

I'm aware of the serious problem that the State of Arkansas has, but actually know nothing that this subcommittee can do about it.

If anybody from Arkansas, has any suggestions they need to talk to us and see if we can. We can't do much with your State Constitution, since you can't it seems. You tried.

We can offer you sympathy. I'd like to see you be able to correct it. I've talked to Senator Bumpers and to Bill Alexander and to David Pryor about it, and you do have a real problem in that direction.

I believe all the subjects have been well covered, and I believe that when we have the hearing in Spokane, Wash., and in Champaign, Ill., those will be the last ones out in the area that I know about. We've had no other requests. Then the 2 days that we have in Washington to wrap this up, that we'll know pretty well what we can stand as far as the FCA's proposals are concerned, H.R. 4782; and, also, probably what we ought to start trying to do in the direction of correcting or helping correct the soil conservation problem that this country suffers.

I want to emphasize again, I wish you would think in terms of an extension of the Great Plains program all over this country where we have serious soil conservation problems. It's a good program. It's doing a good job. I don't know that it can be done, but we can certainly try.

I promise you that the other members of the subcommittee will get a good exposure to what we've heard here. We'll have the record within a few days as they were actually said to the committee, and then we'll be trying to gather some thoughts for what ought to be done in the future.

Gentlemen, I'm seriously concerned about our future. I'm not afraid of our future, but I seriously think that we can't wait until the problem arises before we try to do something about it.

For that reason, the Farm Act of 1977 expires in 1981, at the end of the crop year, and this fall or early next year the members of the full Agricultural Committee will be studying what ought to be offered to the Congress for a new farm bill in 1981. I don't think that's too far away for us to start thinking about it.

Agriculture is taking a new direction and we're going to have more and more serious problems with capital, with land, with marketing, with transportation.

Transportation is a very serious problem in this country right now. Piles of grain all over this country out near elevators where it can't be moved because there's no facilities to move it by; and I think we're going to have to face these problems and face them fairly quickly.

I think I said yesterday that I feel the fact that we recognize Red China to trade with is going to almost revolutionize agriculture in America.

It's going to bring us a lot of problems, but it's going to create for us a lot of income, a lot of wealth, and we ought to take advantage of every bit of it we can. I don't have to tell any of you that we could feed the world if we had to here in America. We might not give them all T-bone steaks, but we could feed them some way. For that reason, I think we need to take advantage of the natural resources we have in this country.

With that I'm going to close. If anybody else has anything they want to say, feel free to hop up and say something. If not, thank you for being here, and we'll try to do this again.

[Whereupon, at 3:05 p.m., the hearings in the above-entitled matter were closed.]

[Additional material submitted to the subcommittee follows:]

MIDDLE TENNESSEE STATE UNIVERSITY,
 Murfreesboro, Tenn., September 25, 1979.

Hon. Ed Jones,
 Chairman,
 Subcommittee on Conservation and Credit,
 Washington, D.C.

I, Robert A. Alexander, Chairman of the Department of Agriculture at Middle Tennessee State University am recommending that the Legislature seriously consider changing the time of Production Credit Association loans from seven (7) to ten (10) years.

Having worked for a number of years with local farmers as a Consultant and University Professor, I know that many of these farmers are in desperate situations. I have served on Citizen Central Bank's Board of Directors from the time before it was chartered and I know the situation some of these people are in. Also, as President and owner of Agrimanagement Consultants I have worked with a number of these farmers in trying to solve some of their capital improvement situations.

If, at any time in the future, you desire to have my personal views on this matter I would be glad to come talk to you. With kindest regards, I am

Sincerely yours,

ROBERT A. ALEXANDER,
 Chairman, Department of Agriculture.

STATEMENT OF CHARLES M. CORNETT, MANCHESTER, KY., FARMER AND MEMBER OF
 THE CUMBERLAND PRODUCTION CREDIT ASSOCIATION

Mr. Chairman, members of the committee, I am Charles M. Cornett of Manchester, Ky., a farmer and member of Cumberland Production Credit Association. I am an employee of Production Credit Association but I come today as a farmer and member of Production Credit Association.

I live in a small community called Fogertown which is about 12 miles west of Manchester and about 12 miles east of London, Ky. Together with my father and brother, we own or operate about 1200 acres lying in Laurel and Clay Counties. Since we live in the foothills of Southeastern Kentucky only about 1/2 of this is in crops and pasture. Our cropping program consists of 44,000 pounds of burley tobacco, 100 to 150 acres of corn and corn silage and approximately 450 acres of hay and pasture land. We also run 150 brood cows, 100 ewes, and background up to 200 feeders annually on a silage program.

I first learned of Production Credit Association in college while working for Ball Ice Cream. I paid the producers and also deducted their assignments and paid them to Production Credit Association. Upon graduation and return to the home farm, I found P.C.A. to be a necessary tool on my own farm.

We obtained our first P.C.A. loan in the early Sixties. Since the first loan, we have borrowed a total of \$830,028.82 from Cumberland P.C.A. Two-thirds or over \$550,000.00 of this was borrowed during the past 5 years.

We have used P.C.A. as a source of capital credit rather than for operating funds. We only owned approximately 350 acres of land when I returned home from college. Now through P.C.A. we own near 1000 acres. My father and I, both, built new homes. We hire very little labor except for tobacco, therefore, expensive equipment had to be available to carry on the farm program. We have over \$75,000.00 invested in farm equipment.

During the past 15 years we have used P.C.A. as our sole source of credit except some land purchases where a small portion of the debt was carried by the seller upon their insistence or a small V.A. Loan was assumed.

We're only one of the 5,700 members of Cumberland P.C.A. but I feel our needs are very typical of the farmers of the area.

Sources of credit for farmers are very scarce in our area. Federal Land Bank makes very few loans. To the best of my knowledge, in my home county of Clay, Federal Land Bank doesn't have a single loan. During the past five years, the

real estate mortgage books in the five principal counties served by the London P.C.A. field office, shows that Federal Land Bank has only made 40 loans for \$2,400,000.00 while the same mortgage books show P.C.A. has made 989 loans for \$29,350,000.00.

Availability of funds from Banks and Savings and Loan Associations have been very limited or non-existence during the past 18-24 months. Bankers have brought some of their best customers to P.C.A. to get loans.

P.C.A. has moved forward to meet these challenges. The volume of the London P.C.A. field office has increased 25 percent to 30 percent each year during the past three years. However, it is disheartening to see members lost that were taken and established just to lose to others solely because of the 7 year pay back required on capital loans at P.C.A.

I respectfully ask you, as a P.C.A. member and farmer, to amend the Farm Credit Act of 1971 to allow Production Credit Association's to make loans with up to 12 years maturities on capital purposes. P.C.A. has the "tract record", the "machinery", and the confidence of the farmers to carry out this task.

Thank you.

**STATEMENT OF GAYLORD D. GOSSAGE, WINDSOR, KY., FARMER FROM
CASEY COUNTY, KENTUCKY**

Mr. Chairman, members of the Committee, I am Gaylord D. Gossage, a dairy farmer from Windsor, Casey County, Kentucky. I own and operate about two hundred twenty five (225) acres. The operation consists of about forty (40) cow grade A dairy herd and thirty to thirty five (30-35) raised heifers, approximately two (2) acres of burley tobacco, and the production of all feed except soybean meal.

I would like to start by saying I support H.R. 4782 which would broaden the Farm Credit System's lending authority and make other changes in the Farm Credit Act of 1971.

The Farm Credit Act amendments of 1979 are necessary for the Farm Credit System to keep pace with the growing credit needs of farmers. We are living in a changing agriculture and without these amendments the farmer could end up short changed because of regulations that are outdated.

Also, I would like to go on record as supporting an amendment to the present bill for a ten (10) year loan or longer for Production Credit Associations.

I am sure your response to this might be that P.C.A.'s already have a special I.T. loan with a ten (10) year repayment. This is absolutely true, however, I wish you would check and find the number of these loans on record as of this date, eight years since the legislation was passed. The regulations are too stringent or the supervising agencies have missed the intent of the original legislation.

I know there is supposed to be someone to serve the needs of all the farmers. The Federal Land Bank for long terms, Farmers Home Administration for long and short terms, and P.C.A. for short and intermediate terms. This is fine and good if everybody is served by these agencies. The Federal Land Bank made only 26 loans in my county from January 1st, 1974 through December 31st, 1978. P.C.A. has been quite active, however, none of these agencies mentioned makes a ten (10) year loan in my county using chattels as security.

I recently bought a tractor that had a sticker price in excess of \$20,000.00. The Internal Revenue allows me to take investment credit and depreciation on a ten year basis, however, I cannot get a ten (10) year loan from any of the above mentioned agencies for my tractor.

I have been in the dairy business for several years. My dairy parlor is outdated and if I decide to stay in the milking business I will be required to build new facilities. New facilities would necessitate the adding of more cows to help pay for the parlor and more cows would call for more silage capacity. The point I want to make is this, I cannot borrow the funds from the above mentioned agencies on a ten (10) year basis without giving a real estate mortgage.

I am a member—borrower of the Farm Credit System and believe we should have a ten year loan or longer for such items as mentioned above. I respectfully request, on my behalf and behalf of the farmers of Casey County and South-eastern Kentucky that the law be amended to permit Production Credit Associations to make loans for capital purposes with maturities of ten (10) years or more.

WARTRACE, TENN.
September 26, 1979.

HON. ED JONES,
*Chairman, Subcommittee on Conservation and Credit,
Washington, D.C.*

CONGRESSMAN JONES: As a member of the Bedford County Farmer's Co-op, Director of the Farm Bureau, and Chairman of the Board of Murfreesboro Production Credit Association, I am writing you in regard to the new Farm Credit Legislation. I feel that Production Credit Associations are in dire need of an extension of longer terms from 7 to 10 years, due to the increased cost of expenses, equipment, and the total operating costs connected with the farming industry.

Due to the acceleration of land prices and capital expansion, and the interest cost over the past months, the 7 year loan has become outdated.

Very truly yours,

GUY HAWKINS.

LEON BRAMLETT,
Clarksdale, Miss., October 1, 1979.

Re Farm Credit Legislation

HON. ED JONES,
*Chairman, House Agricultural Subcommittee on Conservation and Credit,
House of Representatives,
Washington, D.C.*

DEAR CONGRESSMAN JONES: I am writing in regard to the Farm Credit Legislation which is the subject of hearings currently being held by your committee. I am a farmer and cotton gin operator, living in Coahoma County, Mississippi and have been a member of Clarksdale Production Credit Association for twenty-three years. This Association has filled a very vital need for me and the farmers of this area by virtue of the outstanding services it has rendered, particularly in the categories of credit, Credit Life Insurance and Property insurance. I am fearful that these services may be jeopardized by the changes that are being proposed in the legislation. I would strongly urge passage of the legislative package as introduced with no changes thereto.

The services offered by the PCA's which are under attack by outside forces are essential to sound farming operations and particularly the benefits realized by the farmer due to competition. All of these additional services offered by PCA are strictly optional. Individual members may subscribe to these services solely on the basis of need and the economy that might be realized because of competitive rates.

I strongly urge you to use your influence to prevent introduction of any amendment which would impair the authority of PCAs to offer these services.

Respectfully submitted,

LEON BRAMLETT.

September 28, 1979.

HON. ED JONES,
*Chairman, House Agricultural Subcommittee on Conservation and Credit,
House of Representatives,
Washington, D.C.*

DEAR MR. CHAIRMAN: My name is Robert Carson. I am from Marks, Mississippi. I am a farmer and have been since 1951. Production of cotton, soybeans, rice, feed grains and peanuts is and has been my principal source of income for 28 years. At the present time, my family and I farm 1600 acres of row crop land.

I am a member of several cooperatives that meet the needs of my business. At the present time I serve on the Board of Directors of the Electric Power Association that serves the area in which I farm, a local farm supply co-op from which I purchase the large majority of my farm inputs, a cotton gin where my seed cotton is processed, the largest cooperative oil mill in the state of Mississippi, and Mississippi Chemical Corporation at Yazoo City, Mississippi.

As I stated, I am a director of each of these organizations. In addition, I am a members of a local grain elevator which is the first handler of our soybeans and feed grains and a peanut elevator which is the first handler of that crop.

Last, but certainly not least, I serve on the Board of the local PCA from which our crop and equipment financing is received. Each of these organizations, with the exception of grain elevators and the Electric Power Association, secure their funds from FIOB and the Bank for Cooperatives in New Orleans.

As you can see, Mr. Chairman, I believe in what the co-op movement can mean to farmers in our area. Wherever farmers have a hand in supplying their own needs, they have a means to control cost, improve service, and create healthy competition.

Now, as to specific reference to H.R. 4782 and S 1465, a bill to amend further the Farm Credit Act of 1971, and more directly to how this Bill will influence PCAs. Mr. Chairman, I call attention to the fact that farmer-owned lending institutions are simply asking to have the right to better serve their members and offer healthy competition in an economy which needs unrestricted competition. I refer to competition which permits the member-borrower the opportunity to choose the service which best suits his needs. No borrower will seek a more expensive route simply for loyalty. The net cost must be lower, and the service must be better. If these two facets are not met within the system, the borrower will be expected to seek those services from outside sources. However, if net cost can be lowered, the members should have the right to do business with their farmer-owned Associations.

Mr. Chairman, you well know that farmers have been able to stay alive simply because they have been able to keep per acre or unit cost down by producing more per acre or unit, an efficiency rate that is matched by no other system in this country or the world. Competition among farmers has been the greatest bonanza the consumers of food and fiber in this country have ever had. However, direct costs, as you well know, are not what make the total cost. In the area of General and Administrative cost, all the savings in efficiency can be wiped out. It is in the area of G & A that this Bill will permit farmers and Associations to provide services that can reduce total borrowing cost.

Mr. Chairman, this Bill, needless to say, has outside opposition. Amendments will probably be introduced which can effectively cripple this Legislation. I refer specifically to amendments that would prohibit Farm Credit Institutions from writing property and casualty insurance. If this type of amendment should be adopted, I would by necessity have to oppose the whole Bill. I earnestly request the Chairman to oppose all such actions that would change the intent of H.R. 4782 as introduced and I seek your leadership for passage of this legislation as you have introduced it.

If you will permit, let me direct my remarks for a minute to some of the services now provided by Farm Credit Institutions and services which need to be continued so the borrowers can exercise the option to choose what best serves them. Personally, I do not now use the credit life insurance, credit disability insurance, or property insurance. For my purposes, these services are now provided by organizations outside the Farm Credit Systems. I have the right to examine what is provided inside and outside and choose what best serves my purposes. Others may find that from within they are best served. Each needs the right to choose freely, and I mean free from any coercion or pressure. I can assure the Chairman that this is the way it is at Clarksdale Production Credit Association. With reference to the farm records service now offered, I do not use it simply because my present system is far superior to that offered by Farm Credit in cost and information provided. I make the statements to assure the Chairman that we do not have to purchase from within, but need the option to do so if cost and service can be improved.

Mr. Chairman, I say again that I endorse the whole Bill as introduced and seek your help in passage without amendments that will change the intent of the whole package. I personally appreciate the leadership you have so effectively given farmers, and if at any time I can be of assistance to you, I hope you will honor me by asking. Again, my sincere appreciation to you and your Committee.

Very truly yours,

ROBERT A. CARSON.

MAX L. DILWORTH,
Shelby, Miss., October 3, 1979.

Re Subcommittee Hearings—Farm Credit Legislation

Hon. ED JONES,
Chairman, House Agriculture Subcommittee on Conservation and Credit,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN JONES: This letter is to let you know that I am very much interested in the above legislation. I farm beans, cotton, rice and wheat in Bolivar County, Mississippi. I have borrowed crop production money from Clarks-

dale, Mississippi PCA since 1941—have been a member of the Federal Land Bank since 1977. Our gin ships cotton seed to an oil mill that borrows money from the Bank of Cooperatives. You can see why I'm interested in the FICB of New Orleans.

Up until my age made it less attractive I was covered by PCA Credit Life Insurance. The only reason PCA is not writing my property insurance is a member of my family owns an insurance agency. Otherwise it would be to my advantage to have PCA write my insurance when I make a production loan.

I cannot understand why the PCA's should have any problem as to their being allowed to write property insurance. Competition is the spice that keeps prices in line for everything the consumer buys. Surely PCA's should have the same rights as other companies.

Please do every thing you can to see that this legislation is passed as introduced.

Sincerely,

MAX L. DILWORTH.

T. O. FULTON FARMS,
Lyon, Miss., October 1, 1979.

Hon. Ed JONES,
*Chairman, House Agricultural Subcommittee on Conservation and Credit,
House of Representatives,
Washington, D.C.*

DEAR SIR: I am a farmer of Lyon, Coahoma County, Mississippi operating a partnership with my son, T. O. Fulton Jr. For twenty-two years I have been a member of Clarksdale PCA and numerous other farm cooperatives. Thirty-four years ago I helped to organize and was Executive Vice-President and General Manager for thirty-two years of one of the largest Farm Supply Cooperatives in this state. I am now serving my fifth 3-year term as director of Mississippi Chemical Corporation which I helped to organize. I am a member and director of five cooperatives other than those mentioned above.

I have carefully read the amendments to the Farm Credit Act of 1971 and request your support of the proposal as is in its entirety and to use your influence to prevent introduction of any amendment to impair the present insurance service offered by PCAs. I have availed myself of the Credit Life Insurance for the past 22 years. I also recommend that property insurance be available to members because of convenience and the knowledge PCA employees have of the business and needs of its members.

As it has been in the past, this choice should be optional.

As always, I feel sure we can depend on you to use your influence and support on this item.

Very truly yours,

T. O. FULTON, Sr.

W. W. HUGHES & SON,
Marks, Miss., October 1, 1979.

Hon. Ed JONES,
*Chairman, House Agriculture Subcommittee on Conservation and Credit,
House of Representatives, Washington, D.C.*

DEAR CONGRESSMAN JONES: I am a farmer from Marks, Mississippi. I have been a member of Clarksdale Production Credit Association since 1962. The Production Credit Associations are very important sources of credit for the farmer-member. It is in this capacity that I ask for your support of the upcoming legislation concerning the entire Farm Credit System.

As a farmer and a member of the PCA, I am vitally interested in passage of the proposed legislative package to be presented by the Farm Credit System. I endorse the total package as offered by the System with no amendments. It is my opinion that amendments would only serve to destroy the whole concept of the System's proposals.

I have been advised that, possibly, several special interest groups oppose certain parts of this legislation, more particularly, the sale of property and casualty insurance by PCAs to members of the Production Credit Associations and the Federal Land Bank Associations. Should such an attempt by these special interest groups succeed in a move to prohibit PCAs' selling property insurance, members would be unjustly punished.

I am familiar with the insurance package offered by my local PCA; in no way could the sale have been handled more professionally. The agent went over my entire insurance package and made recommendations that he thought best fit my particular needs. The whole presentation was made at my insistence, and at no time was there any pressure to purchase from PCA. Of no little consequence is the fact that a savings of \$1700.00 was realized over the bid of the Independent Insuror. To deny the member farmers the right to buy property insurance from their PCAs just because vested interest groups want to feather their nests would be an injustice to the farmer as a consumer. Competition is one of the things that has made America great.

I hope that you will be able to support the farmer and vote for the legislative package as presented by the Farm Credit System.

Sincerely yours,

A. W. STEVENS,

SEPTEMBER 28, 1979.

Hon. Ed JONES,
*Chairman, House Agricultural Subcommittee on Conservation and Credit,
House of Representatives, Washington, D.C.*

DEAR CONGRESSMAN JONES: I am a Mississippi cotton, bean, rice, peanut, and pecan farmer. My address is Ridgecrest Lane, Clarksdale, MS. 38614. I have been a member of Clarksdale Production Credit for twenty three years. I have used the Federal Land Bank for long term loans for fifteen years. These sources of credit are the back bone of my farm operation as well as my farmer friends in the community. I happen to know from farming in a foreign country that nothing is available even slightly close to these fine organizations.

I personally do not use Credit Life Insurance, Credit Disability Ins., Property Ins., Farm Records Service, etc., but I do like the option to do so if I so desire. There has never been any pressure on me while doing business with PCA to use any of the services except at my request. Therefore; I ask for your influence in the passage of the amendments to the Farm Credit Act of 1971 as approved by the Federal Farm Credit Board in April of this year. I especially seek your influence in preventing the introduction of any amendments which would impair the authority of PCA to offer any of the above named services.

I was given the opportunity by my Father to use my local Bank or finance with PCA 23 years ago. I took PCA due to the method of accrual for interest at the time and for the optional coverages that I could choose from, with no pressure. I made a good decision my first year and that decision was PCA. I certainly wish that my Association could service my farm operation in Mexico.

Time and success attest to PCA service to the American Farmer.

Sincerely,

DAVID B. MULLEN.

CLARKSDALE PRODUCTION CREDIT ASSOCIATION,
Clarksdale, Miss., September 28, 1979.

Hon. Ed JONES,
*Chairman, House Agricultural Subcommittee on Conservation and Credit, House
of Representatives, Washington, D.C.*

DEAR CONGRESSMAN JONES: I am a resident of Clarksdale, Coahoma County, Mississippi and am employed by Clarksdale Production Credit Association as President of the Association.

We earnestly request your support of the Farm Credit Act Amendments of 1979, as approved by the Federal Farm Credit Board and request your support in opposing any amendments to the present legislative package. We especially request your support in opposing any amendment that would prohibit Farm Credit Institutions from offering property and casualty insurance to their members.

In this time of escalating costs to farmers, when it is becoming more and more difficult to make a profit farming, we believe farmers should have the option of purchasing insurance from whatever source that best meets their individual needs.

I have been an employee of this Association for 32 years, and we have sold Credit Life Insurance to members for approximately 25 years. We have never required anyone to take Credit Life Insurance in order to secure a loan, and it is not considered when approving or declining a loan application.

Credit Life Insurance has been offered only as a service to members, and we have a substantial number of members that do not take this insurance.

We began selling property and casualty insurance recently. This insurance will be offered to PCA and FLB members on the same basis that Credit Life Insurance has been offered PCA members over a period of years. Members will be invited to compare the insurance offered by PCA to that offered by any and all competitors. We will recommend to both PCA and FLB members that their insurance be bought from whoever best serves their individual needs after cost and desired coverage is considered.

Very truly yours,

WILLIAM W. HUGHES, III,
President.

U.S. DEPARTMENT OF AGRICULTURE,
AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE,
Mackay, Idaho, October 24, 1979.

HON. ED JONES,
*Chairman, House Agriculture Subcommittee on Conservation and Credit,
House of Representatives, Washington, D.C.*

DEAR CONGRESSMAN JONES: We, as the County Committee for Custer County in Idaho, would like to make the following comments. We only wish we could attend one of the formal hearings, but money and time seem to conflict.

As a committee, we feel that ACP is one of the best tax investments the tax payer has made. When we tie down our soil so it doesn't erode, and we clean up our water, these are conservation practices that many people in the future generations will enjoy. ACP has always been used in Custer County as an incentive to get the rancher or farmer to participate in some kind of conservation practices.

One of our biggest concerns is the amount of money that is allocated to our county. Each year the amount seems to get smaller. With the dollar not going as far these days as it once did, our conservation dollar isn't getting as much done as we would like. We could allocate three times as much money each year, if we had it to spend.

Something else we don't appreciate is being told what practices we should have here in our county. We are convinced that we know the conservation problems for Custer County better than anyone else. Last year we asked for "Weed Control" and "Streambank Protection". We felt both of the practices are our highest priority. Our State Committee approved both of them and sent them to Washington for approval, where they were both turned down. We feel we should have the right to choose the practices that buy the most conservation for the dollar spent.

Another item we feel should be brought up is the "Clean Water Act". ASCS should be administering this, the same as ACP. The Soil Conservation Service would use a lot of this money for administrative purposes. When this happens there is no conservation bought. If ASCS was to administer the program there would be no additional administrative cost involved, because each office is already set up to hand ACP and the cost-share program. We feel the Clean Water Act is the same thing we have been accomplishing with ACP. So, why should there be another Agency administering the same thing, and have all this work duplicated?

Very truly yours,

THOMAS W. CHIVERS,
Chairman,
BOLEN URESTI,
Vice Chairman,
JAMES C. LAMBERT,
Regular Member,
Custer County ASC Committee.

OCTOBER 25, 1979.

Congressman ED JONES,
*Chairman, Agriculture Subcommittee on Conservation and Credit,
House of Representatives, Washington, D.C.*

DEAR CONGRESSMAN JONES: As farmers in Lafayette Parish and members of the local county Agricultural Stabilization and Conservation Committee, we would like to make our views known concerning the future of our conservation

programs. We commend you for the hearings you are having and regret we are not able to testify personally.

The Agricultural Conservation Program of the Agricultural Stabilization and Conservation Service has been serving our nation for a long time. This partnership between our government and our farmers has achieved remarkable results. The conservation practices carried out benefit all and that is why the use of tax dollars to cost share is sound.

We have seen the results of the program around our parish. Farmers are installing water control structures to control runoff and to reduce pollution of streams and waterways by siltation. They are carrying out many of the other practices in the program with equally good results.

As we look down the road we can see an even greater need for a good sound managed conservation program. More and more farmland is going into row crops, a serious need exists to stop the pollution of our streams and to prevent the serious erosion problems that rob us of our topsoil.

We hear some people say what we need is new programs, administered by new people to do new things. We say and I think a majority of the farmers would agree that the ASCS-ACP has been a good program and what we really need is a continuation and expansion of that program. We don't need additional programs that would hire additional people and propose to do the very same things our ACP is presently doing.

You know ACP was the original EPA program for Agriculture and has silently gone about doing the job. ACP funds have stayed the same over the years, while spending for many other not nearly as important areas have been increased.

We think the ASCS-ACP combination is one that is proven and should be the major focus of our agricultural conservation effort. If ACP has not done what some people think should have been done its only because the program has not been allowed to expand to meet the growing needs.

Lets increase our commitment to conserving our natural resources in terms of dollars for practices and not for duplicate programs and/or people.

Also, lets keep our conservation program under the ASC County Committee system. Being farmers they are knowledgeable about the land and its needs and they have the support of their fellow farmers who elect them.

We thank you for what you have done for conservation in the past and know we can count on your help in the future.

Sincerely,

J. GEORGE DUPLEIX.
JOHN I. BROUSSARD.
B. W. SPELL.

STATEMENTS CONCERNING THE AGRICULTURAL CONSERVATION PROGRAM

I am here today representing the Nebraska Association of farmer elected committeemen, to provide some statements concerning the ACP. My experience with this program has also been as a former County ASC committeeman and as a producer who uses the land for the production of agricultural commodities.

Some of the main points that I would like to cover are as follows:

1. IS ACP DOING A GOOD JOB IN MY COUNTY AND THE STATE OF NEBRASKA?

Nebraska has traditionally administered a program emphasizing practices that provide direct and immediate soil and water conservation benefits and which improve the environment. Nebraska was one of the Great Plains States along with other States represented here whose land suffered during the 1930 drought years. Those of us who are native Nebraskans who tilled the soil or whose fathers tilled the soil can testify to the fact that, because of this program and the support of other USDA agencies, Nebraska's land and water resources have greatly improved. Our county committees identify problem areas and approve those practices that will best solve these problems. These practices are generally terraces, water control structures, grass waterways, seedings and windbreaks. Regardless of some criticism, county committees in Nebraska, with the leadership and guidance of the State committee, have utilized ACP funding for those practices that I have mentioned that provide long time conservation benefits and that do not directly increase production.

You may or may not know that Nebraska is known as the State with the most abundant underground water supply of any of the fifty States. To us in

Nebraska, this resource needs to be conserved and utilized efficiently for the future production of crops. Approximately seven million of Nebraska's 20 million acres of crop land are now irrigated, with the majority being irrigated from wells. This irrigation development puts Nebraska as one of the three States having the most irrigated land. It is, therefore, imperative for the good of the nation and future generations, that ACP cost-sharing be provided for practices that will provide the most efficient use of this valuable underground water resource. To conclude on this point, I would therefore say that YES, the ACP through the county and community system is doing an excellent job in my county and in my State.

2. SHOULD WE HAVE MORE MONEY FOR ACP?

My response to that is a positive Yes. As a farmer and former county committeeman, and speaking for other farmers and ranchers in Nebraska, we are willing to invest some of our own financial resources into the conservation effort if there is more money available for the program. I have checked with our State ASCS office and they have advised me that requests over a 12-month period will average 10 to 15 million dollars in Nebraska. Yet Nebraska's allocation has been dropping from a high of about 6½ million to a current 4½ million dollars. We farmers are also aware that many counties in Nebraska currently have requests for cost-sharing on hand for as much as \$200,000 that cannot be approved because of lack of funds. The point I want to make is that farmers are willing to invest approximately 25 percent or more of the \$10 million worth of requests if the funding were available. COC's have reported to me that during 1979 they have received more complaints from farmers who were willing to do conservation work but are being turned down because funds were not available than ever before.

3. SHOULD COUNTY COMMITTEES HAVE MORE SAY ABOUT WHICH CONSERVATION PRACTICES SHOULD BE AVAILABLE IN THE COUNTY?

During the last two or three years, county committees have had an opportunity to determine which conservation practices to have in their county program. I wish to point out again, however, that in Nebraska, county committees have used sound judgment in determining which practices to include. Our county, which is Burt County, located in northeast Nebraska, has always been aware that sufficient funds are not available to include some practices that would provide some conservation benefit. We are aware, however, like most county committees, that the funds should be utilized for those practices that will do the most good for us and the taxpayers over a long period of time.

4. WOULD YOU LIKE TO SEE A TRUST FUND ESTABLISHED TO PROVIDE FUNDS FOR BASIC SOIL AND WATER CONSERVATION PRACTICES?

It is our understanding that a trust fund that has been proposed by some groups would make money available to perhaps State or local governments or other entities in the form of a grant and allow farmers and ranchers to borrow from this trust fund that would be a revolving type fund. I do not believe that this type of approach would be totally satisfactory. I say this because everyone should be aware that the total amount appropriated by Congress for ACP that has been \$190 million the last few years, goes directly to the farmer to apply conservation on his land except 5 percent to the Soil Conservation Service for technical assistance. The cost of administering this program by ASCS is minimal. To take another approach by establishing a trust fund or similar type program would then establish another line of administrative procedures that could be costly to the taxpayer. My interest is seeing that every dollar appropriated by Congress for conservation be utilized for that purpose and not for administration and planning.

5. CONCLUSION

It is my opinion that this nation cannot expect to ever get the total conservation job done. The nation, and the farmers who produce the food, must exercise patience and realize that the total conservation job cannot be accomplished in

one or two decades. Production of food on farms and ranches changes, based on new techniques, and this causes new conservation problems to arise. We must all realize that just because new terraces have been built or a new dam has been built, these practices do not last forever even with the best maintenance.

I will say, however, that if our society, through their delegated representatives, will realize that farmers and ranchers are willing to invest part of the cost in the conservation effort and match their funds with public funds, we can continue to make great strides in reducing erosion, conserving water and improving the environment. The ACP has worked through the country committee system and will continue to work in accomplishing our goal if the public will see fit to share in conserving our soil and water for generations yet to come.

I thank you for the opportunity to present these statements. Thank you.

OCTOBER 25, 1979.

Re testimony of Gene Simmons, Cameron, Mo., pertaining to proposed amendments to Farm Credit System law and ACP program.

Representative Ed Jones,
Chairman, Conservation and Credit Subcommittee, House Agriculture Committee.

MR. CHAIRMAN: In connection with proposed changes to the farm credit law, I appreciate the opportunity to offer my comments and suggestions. My testimony is based on considerable training and experience in the field of agriculture, and I am vitally interested in the farm credit system and its service to agriculture. I served 21 years with the Federal Land Bank in field association, mostly as a manager of a local association. I also own and supervise a 200 acre grain and livestock farm, and taught agriculture after graduating from the Missouri College of Agriculture. Presently and for the last five years I have owned and operated my own farm real estate brokerage firm. I will divide my comments into sections according to the particular farm credit unit. First, I will comment on the Federal Land Bank System:

Under the present law, Federal Land Banks can loan up to 85 percent of the appraised present market value of farms. I believe that if the present law was properly carried out and farmers could actually receive this amount of loan on a farm, there would not be such a need for some action. I was a manager of an association in the early seventies when the present farm credit act of 1972 was passed, and we started out making 85 percent loans but it was not long until our supervisors out of the land bank (St. Louis bank) started cutting us back to loans of 70 percent or less. I understand in some areas no more than a 50 percent loan can be obtained. Large and wealthy farmers or outside investors may have the large down payment needed, however the middle class and young farmers do not, so it has become impossible for many rural people to remain on the farms and engaged in agriculture. Commercial banks cannot offer much long term capital for land purchase since they must roll over frequently their money for short term use by customers. Insurance companies offer some capital, but strictly on their own terms and they choose their loans carefully and frequently do not have funds due to changing economic conditions. Farmers Home Administration is of some benefit in land purchase, however they frequently are out of available funds and their loan processing is extremely slow and inefficient. The Land Banks and FHA have made many joint participation loans, however the loan process works much better if Land Banks can make the loan by themselves. It has been suggested, I understand, that amounts over 85 percent of a Land Bank loan be made and insured by some agency of the government such as FHA. This would be satisfactory, I think, however it makes loan processing more slow and awkward for the farmer borrower. The Land Banks are the ideal vehicle for channeling capital into agriculture, and as I mentioned, I believe if farmers could actually receive a realistic 85 percent loan, they would be able in many cases to go ahead and purchase farms. Therefore, I would scrutinize the operations of the Land Banks to see that they do what they are supposed to do. There are not enough farm credit employees at the Washington level to see every farm, and they therefore rely on the district banks to carry out the program and they check it on a spot review basis.

I believe the problem in administering the 85 percent loan level arises when the loan approval process is required to go through too many vertical lines of

authority. At each level, it seems like an extra 10 percent is cut off the loan so that the man working on the loan or who is responsible will "not look too high". By the time one starts at the FCA level in Washington, then goes to the district bank level, then on through the area supervisor (or Regional Vice-President), as they are now called, then on the local association Manager (or President) there is a good at least 30 percent loanable lost to the farmer. Everyone seems to be trying to second-guess his supervisor, and is more concerned with being "too high" on his loan than being of service to the farmer. It is my firm belief and always will be, that the land banks and the cooperative credit system exists only for the benefit of the farmer. They were not organized for profit and should not be motivated on that basis. Please understand that I do not believe in operating at a loss, as expenses must be paid and certain capital reserves must be maintained. But, I want to assure you that there are several men in the Farm Credit System and banks that will make the above statement I made, but they do not really believe in the cooperative principle and are only interested in making a big gain or profit to promote their own fame and authority. I think this is a general problem in all farm cooperatives today, and I think the solution is for the farmer-members to be more active in the actual operation of their organization. The Farm Credit Act of 1972 gave much more power (particularly over local association personnel) to the district banks, and in this area that power has been greatly exercised, leaving local association board members behind in the process. Local associations formerly had some authority or at least received adequate consideration from the district bank, but now that is not true. In this district many good experienced association managers have left, and were replaced by young men of good quality, but very inexperienced in offering proper counsel and advice to farmers managing investments of from \$200,000 up to several million dollars. Personally, I want to say that I built a successful Land Bank Association here at Cameron from \$3 million up to \$30 million outstanding, with all loans on a sound basis. When I could not get Glenn Heitz, president of the St. Louis Land Bank to offer me additional field staff to meet the increasing need for loans (we were making \$1 million in new loans monthly), he intimidated me and forced me out of office over the local board, not giving them a chance to vote on my record. I was told my loans were "too high", etc., however most of my customers told me they thought I was very conservative. I do know that I tried to appraise farms at their true present market value, and to make loans of a realistic amount. We had 1300 loans and I know the record of success on the loans has been good and most are being repaid without problems. In making long term loans of 20 to 30 years, you must understand that some loans can go sour as people can change and conditions can change. I now get reports that the Land Bank is not doing much of anything in the way of making many loans here now. Many are forced to get or seek loans from banks, insurance companies or through the seller. Getting back to the 85 percent loan—I believe many purchasers could manage a 10 to 15 percent down payment if they could get the 85 percent. On a typical of a 300 acre base farm selling at \$1000/a or \$300,000, there is a great deal of difference between 15 percent down (\$45,000) and 30 percent down (\$90,000). And of course if a Land Bank appraiser says the farm is selling too high, fails to respect sale price, and sets a market value of say \$270,000, the resulting loan is further reduced. I usually set the market value at the same level as the sales price (provided it seemed to be a reasonable sale).

However, I saw cases where supervisors would consider himself the foremost authority on value and arbitrarily set the market value on a loan report at a point quite well below the sale price. I know as well as anyone that the Land Banks and other units of the Farm Credit system must keep their loans sound in order to promote confidence in their bonds by investors, however they tend to forget who they are supposed to serve—the farmer. The Farm Credit System and the Land Banks do have a public trust and we should not forget this, but now with a new set of economic conditions facing the farmer and the field of agriculture, it is time to take a new look at his needs. Because if we do not promote the interests of the farmer and agriculture and he goes down the drain, there will be no need for a farm credit system or a Federal Land Bank. With higher percentage loans at higher interest rates and on land costing more than ever per acre, it is true that farmers can have serious cash flow problems. Part of this pressure can be relieved with new payment plans such as installments of interest only, partially amortized loan installments, balloon payments, etc.

Some loans are already being made by Land Banks now with payments of interest only for a specified period, but I think more could be done on partially amortized loans—that is, with say only one-half of the principal being paid off in 30 years, with the other half due in a balloon payment at the end of the 30 year term. This could be accomplished of course with a re-financing at that time. I want to point out that due to inflation and rising land prices, fewer people can purchase land, which is speeding up the trend toward fewer and larger farm units. Without adequate credit sources, this trend will continue at a rapid pace. I do not feel it is healthy for our economic system for a majority of the land to be owned by fewer people and organizations. As people leave the land and migrate to the cities, social problems there tend to get worse. More people staying on farms and in rural areas will support the economies of local towns and communities. Some counties (one in this area) are broke as they do not have enough people paying taxes to support it. It is true that larger farm units are more efficient in their production up to a certain size. In this area the full time farmers will typically own around 300 acres and rent in addition at least 300 acres. It is also true that a majority of our food production in this country will come from a relatively small number of larger farm units, and of course this is important to keep food cheap to the consumer. But we must remember there is a social and cultural aspect to this problem. Studies have also shown that in communities where there is mostly large and corporate farms, there is a loss of social and cultural life as well as enough economic support. Therefore, in summary I would make the following recommendations for general improvement of the Federal Land Banks:

1. Farm Credit Administration and District Land Banks should better administer the present Farm Credit Law calling for 85 percent loans so that farmers could receive loans of a more realistic amount.
2. Eliminate too much centralization of power in the system which leads to lack of understanding and adequate loan service to the farmer.
3. Eliminate too many vertical levels of authority which acts to reduce amount of loans and proper loan service at the field level. Consideration could be given to making local association the primary lender, with all paper work, processing, legal work, etc., being done locally in the association.
4. In cases where a realistic 85 percent Land Bank loan is not adequate for the borrowers needs, that an additional 15 percent loan or sufficient amount needed could be advanced by the land bank, with the additional amount insured by some agency of the federal government such as Farmers Home Administration. The mechanics of this program should be worked out so that the part played by FHA does not hamper or slow down the usual prompt loan processing time of the Land Banks.
5. Review repayment plans and devise new ones more suited to the farmers needs and farming operations. Suggest smaller principal payments, interest only payment, partially amortized payments, balloon payments etc.
6. It is good if a borrower has some equity in his property, even if only 15 percent, however, consideration could be given to permitting Land Banks to loan 100 percent of the purchase price of a farm being taken as security, provided the borrower can generate the necessary cash flow from the farm plus other assets owned.

I would now like to make general comments regarding the production credit associations:

The local PCA's which discount their loans through the district Federal Intermediate Credit Banks have proven to be a good and reliable credit source for farmers. They have been more progressive than the Federal Land Bank Associations and do a better job of promoting and marketing their services. The local associations act as the primary lender to farmers, thus offering more efficient service. There is no reason why the local FLBA's could operate in a like manner. Due to increasing capital operating needs, PCA's have fulfilled a real need for credit to farmers. They extend credit on short and intermediate term to farmers, more on a basis suited to their needs. They stay closer to a farmer and his operation, seeing him every few weeks and therefore are better informed and in better position to give him advice and counsel. They usually take only personal property for loan security and should not be permitted to take real estate farm mortgages for periods of longer than one year. They need to take a short term deed of trust occasionally to protect their position until a farmer markets his products. I think PCA's should be able to finance agricultural related

enterprises such as custom fertilizer or chemical application businesses. The general theme of the PCA's should be loans for farm *operating* purposes, to be paid back or renewed in the short or inter-mediate term (not over 3 yrs.).

I would now make general comments on banks for cooperatives:

I understand under the proposed amendments to the farm credit law, that banks for cooperatives in the various districts could make certain type loans to expand the exporting of farm commodities. I think this is a very good purpose and the law should be implemented immediately to do so. Today we are seeing great American production of grain, for example, and the market is now glutted due to storage and transportation problems. If additional programs and facilities of local coops could speed up the movement of this grain to the ports and overseas, it would be a great thing.

Our farm cooperatives should be in a position to better compete with the large privately owned grain companies. The farmer would get a better price and it would help the movement of grain. Everyone knows the real need today of increasing our exports and improving our balance of trade. This is doubly important in view of the vast amounts of dollars going out of this country to pay for oil being imported. One of the great economic advantages of this country is its agricultural production from farms, and this is one way to promote it and use it to our economic benefit. I am not familiar with the details of the proposed loan program here, but I presume it would be one of making loans to local farm cooperatives to build facilities, etc. I am a member of the local coop (Farmland) and store my grain annually here at the local elevator. When it goes in to Kansas City, it is usually bought by one of the large private grain companies. It would be better if farm cooperatives had the storage and transportation facilities to handle the grain direct from the farmer via the marketing process direct to the purchaser overseas. The farmer would probably get a better price, and it might eliminate those private ones who would speculate and try to make money off the farmer in the process.

This concludes my testimony regarding the Farm Credit System, except that I want to say that I have a high regard for the system and the important role it plays in agriculture. I am particularly interested in the Federal Land Bank System, having spent many years there. Also having my own farm and operating a farm real estate business as well as having been trained in and taught agriculture. I feel I have a good understanding and background of agriculture. If the opportunity arises, I would very much like to continue my career in Farm Credit. In recent years, I was twice invited to Washington to interview for Governor of Farm Credit Administration. I have many active years left since I started rather young with the Land Bank. I have contacted both the Washington office of FCA and the St. Louis Land Bank, as well as other districts, however they do not seem to want people with my experience, and this is quite hard to understand. I would say that this is what is wrong in general with our government today, that is, it has just lost touch with people at the grass roots and therefore one can not blame them for losing confidence with government. Meantime, I will be watching and waiting for any chance whereby I can make a contribution to The Land Banks and Farm Credit.

Now I would like to offer my comments regarding the Agricultural Conservation Program (ACP) which I understand is being studied for improvement and new incentives. Needless to say, due to higher land value and need for grain, more and more land is being plowed and is under intensive cultivation. From watching my own land, I know this results in more rapid erosion of our most precious resource—our soil. Many fields are under continuous row-crop use of corn, soybeans, wheat, or milo. Once lost at the bottom of the hill, or into our streams, the soil is gone from productive use forever. There is no better purpose for Federal funds than allocation to conservation methods such as terraces, tile outlets, ponds, limestone applications, grass seeding, etc. We spend billions overseas, with no visible results, so why not spend for something quite basic like soil conservation. I have received some cost share assistance and the present mechanics are satisfactory, except that there needs to be much more money channeled into this ACP program. In this way, many more farmers could receive assistance.

In my county this calendar year a certain amount of money was received for ACP work through the ASCS, however it was too small to be really effective on much of a scale. I was quite thankful to receive the help I got, however I know the county committee was in a quandry trying to distribute fairly the small

amount they received. Land improvement costs have risen so fast that conservation methods have become quite costly. For example, a bulldozer will charge from \$40 to \$60 per hour and this soon runs into large amounts of money. Usually many days are required to complete a land terracing project. I believe under the present plan, ASCS will share-cost 50 percent up to a certain amount, and this is really a pretty good incentive to do conservation work. The problem is the amount distributed from the county office is so limited that a farmer feels he is quite limited in the amount he can do. Other limiting factors to doing conservation work, are, weather conditions and lack of availability of a contractor. It requires a large amount of capital investment on the part of the contractor in tractors, dozers, and equipment, and many are not able to handle it. One can not control the weather, and in this area one has to do the work in a short period of time in the spring before crops are planted and in the fall after they are harvested, so the time factor is limited. To help the problem of availability of contractors, I would think some plan might be worked out whereby qualified contractors could avail themselves of a government sponsored program whereby they could get necessary credit to get established in the land improvement business. They need money in the amounts similar to land purchase (large amounts), and perhaps they need a loan program more suited to their needs. Loans could be made for longer periods of time with more favorable repayment terms. Perhaps the farm credit system or FHA could enter the picture here with a loan program to finance qualified contractors. I know personally several land contractors, and it really is a struggle for them to handle the huge investment, do much work, and be successful. Farmers themselves usually do not have the time or are not up on latest techniques to purchase and operate land improvement equipment. I want to point out here that I strongly oppose Federal Laws and regulations that interfere in any way with land use and the right of the farmer to operate his land as he sees fit. This is a basic freedom that we must preserve. I have heard that some water regulations concerning the Corps of Engineers and stream run-off situations might result in restrictive land use and this not good. Our country has made great progress and is still the best country in the world and this has been made possible because of our successful agriculture and efficient food production. We started as a primitive rural country and have come farther than any other nation, largely because we preserved the right to choose and progress through freedom. Americans are proud of their country and their freedom and I think the reason many are upset in these times is they see their freedom being threatened by world-wide economic and political conditions. One of our best defenses is to keep our agriculture and country strong, and I think the agriculture improvement matters noted herein would greatly help in that effort. Mr. Chairman I would like to give this testimony personally, but if not able to do so, hereby respectfully submit it for the record. Thanks very much.

GENE SIMMONS.

FEDERAL CONSERVATION AND FARM CREDIT ACT AMENDMENTS

SATURDAY, OCTOBER 20, 1979

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CONSERVATION AND CREDIT
OF THE COMMITTEE ON AGRICULTURE,
Spokane, Wash.

The subcommittee met, pursuant to call, at 9:30 a.m., in the Spartan Student Union West, Spokane Falls Community College, Hon. Ed Jones of Tennessee (chairman of the subcommittee) presiding.

Present: Representative Marlenee.

Also present: Representative Foley, chairman of the House Committee on Agriculture.

Staff present: Robert A. Cashdollar and Wayne A. Fletcher.

OPENING REMARKS OF HON. ED JONES, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TENNESSEE

Mr. JONES of Tennessee. Good morning, ladies and gentlemen.

Before we begin the hearings let me say that we are delighted to be here in Spokane. The reason we are beginning before Congressman Foley gets here is that we have a long list of witnesses today and it's going to be rather difficult to get through but I'll guarantee you we will finish the list before the day is over.

I would like to briefly go through some of the reasons why we are here, lay out the ground rules and regulations as to the way we preside and handle the hearings.

Our reason for coming into the various areas of the country is for the purpose of being able to hear witnesses, such as we have listed here today. We can stay in Washington, D.C., and have all sorts of professional witnesses from day to day, as many as we can afford to listen to, but at the same time I feel, and our subcommittee feels, that the true facts do come from hearings such as these. We prefer to hear from people who are connected with farmland and farm people and we know that you can tell the subcommittee firsthand, really, what's on your mind.

Our foremost reason for coming is to gather information on the Farm Credit Act that is proposed to be updated from the present law, but we are also here to obtain whatever information we can on a sound and nationwide conservation program. We hope most of the testimony will be confined to these two subjects. If not, we will accept it anyway and if we are covered by the rules of our committee as to whatever the testimony is, we will confine it to whatever area we are writing laws in, in that regard.

Now, as to the rules of the hearing, due to the large number of witnesses, if you want to summarize your statement that will be fine. The entire statement, regardless of whether you summarize it or read it, will be made a part of the record, in order that the other members of the subcommittee will have an opportunity to read it. Witnesses, in most cases, will not be questioned as they finish their testimony. In most all cases witnesses will be called back, periodically, together and we will question you at a time, collectively. For that reason we will be making notes as we go through and as we hear from one witness to another. We do that for the sake of time. Normally we hear the morning witnesses just before the break for lunch and, then, the afternoon witnesses will be handled the same way. We may want to change that a little bit today because there may be a problem with as many witnesses as we do hear. If we fall too far behind we'll not break for lunch. That will be determined as we move along.

As you come to testify will you please bring a copy of your statement and give it to one of these gentlemen here at the table where they are seated.

Now, I would like to introduce the members of the Congressional Subcommittee on Conservation and Credit of the House.

I think all of you know that I am Ed Jones. I have been here before. I was here with Congressman Foley a few years ago. We have with us Congressman Ron Marlenee from Montana, and we arrived late last evening, but I find that he knows a good many people here too. So I want to defer to Congressman Marlenee, now, for any statement that he might make and, then, I will introduce the staff.

Mr. MARLENEE. Thank you, Chairman Jones. It is a pleasure to be here and see all the familiar faces out there, and it is my pleasure to serve on the Subcommittee of Conservation and Credit.

I can empathize with you and I can imagine how some of you attained some hearing loss, if you do have any. I have two hearing aids and I got them from riding these crawler tractors several thousand hours, so I am kind of understanding of the hearing problem and cognizant of it.

Mr. Chairman, I notice you said here on our list of witnesses it will be 7 minutes per individual and 3 minutes for questioning, and I think that is kind of highly unfair, because you know us politicians can't even say hello in 7 minutes. I think these people can outlast us here though, and I think that's a good ground rule to have. I see they have got a lot softer chairs than we have, so you'll be here long after we're ready to go home.

We are here to fine tune, as I understand it, some amendments. Fine tune the farm credit legislation. We may be doing the fine tuning, but you fellows are the composers, we represent you, you should do the composing and tell us what we need and how we can best achieve it and, then, we will try to dovetail this information into the present act, and I think I need not say any more, Mr. Chairman, except welcome to this subcommittee hearing.

Mr. JONES of Tennessee. Thank you very much, Ron, and we will be alternating in presiding and handling the hearing today and, then, of course, Congressman Foley will also be doing that when he arrives.

I would like to introduce the staff of the Subcommittee on Conservation and Credit.

First, the two gentlemen sitting to my left, your right, the one nearest me is Bob Cashdollar, staff consultant for the majority on the Subcommittee on Conservation and Credit. Wayne Fletcher is the staff consultant for the minority on the Subcommittee on Conservation and Credit. Wayne is primarily responsible to Congressman Madigan of Illinois, who is the ranking member of the subcommittee. Although he has attended a large number of the hearings that we have been holding, he was unable to be here today. Then we have Marilyn Mauk who is with Congressman Foley's staff and several others here who are with Congressman Foley's staff, that I do not see at this time.

I'm positive that we are going to have some real good testimony today.

As you testify, we want you to introduce anybody accompanying you, for the benefit of the record. Our first witness is Mr. Eugene C. Davis, the board chairman of the Federal Intermediate Credit Bank of Brunear.

Mr. Davis, we are delighted that you are here.

**STATEMENT OF EUGENE C. DAVIS, BOARD CHAIRMAN, FEDERAL
INTERMEDIATE CREDIT BANK OF BRUNEAR, IDAHO**

Mr. DAVIS. Thank you, Chairman Jones and Congressman Marlenee. I am Gene Davis from Brunear, Idaho.

At Brunear, Idaho, I operate, in conjunction with my brother, my son, his son, his son-in-law, the Bruncar Cattle Co. This is a combination farming, livestock enterprise. We run about 1,000 mother cows, 800 to 1,000 head of yearlings annually, a 5,000 head capacity feedlot, which we put through all of our own cattle, a number of cattle that we buy and also do custom feeding in that feedlot.

I do appear here today as chairman of the Twelfth District Farm Credit Board, having served on the Board since 1974, and prior to that time on my local PCA board at the western Idaho PCA in Caldwell, Idaho.

Chairman Jones, for my testimony I would like to just allude to maybe a couple of the 28 provisions that our package is asking for and, then, I would like to summarize some of the things that I see as the duties of us in Farm Credit.

Very quickly I would say that the formulated activities provision of the proposal is very important, we think, to our district. We look at the fisheries capability, the 1971 act and, then the Weaver bill allowing the terrific expansion of our activities in aquatics, fisheries, the 200-mile limit, the partial enforcement now and looking forward to complete enforcement of that, 10 years or so down the road. It creates for the fishing industry a definite need for additional credit and, again, in formulated the processing facilities. I will just touch briefly on that, some more of our people will get into it more in depth.

Export finance for the co-ops. I think that we would look at this one as one of the very weighty provisions of our request.

We know, all of us here, the importance of agriculture export. The thing that it does in, at least, helping to get our balance of payments back in the shape that we would like to see them. Certainly since we are blessed with the capabilities we have in this country

of producing the agriculture products, food, and fiber for ourselves and for so much of the world, we think that we could better do this job with additions to our farm credit bill, as asked in our legislative package, and specifically in the export finance area.

Now, I would like to suggest that in my time in Farm Credit, and in my period of time as being an active farmer, since 1940, a farmer and/or rancher, 1946, I have seen definitely three periods, I think, in that time when I have been so thankful that we do and have had farm credit.

I have seen the commercial banks and other financing institutions run away at the very time when we needed credit so badly and how lucky we are, I think, to have Farm Credit to back us up in these times.

I think we have done a good job with Farm Credit. The 1971 act gave us new provisions and, now, we are here again asking for additional provisions. In our fast changing times, our fast pace, I think it is only normal that we have to have and need to make requests such as this.

I look at this as an additional fine tuning, as you suggested, of the tool that we already have.

My operation at home, if I have a man, and we do hire some help, if that guy gives me 100 percent of what he has, that's all I can ask. I think that I have to measure his output by the tools that I give to him to work with, to accomplish the job that's lined out to do.

I look at the Farm Credit Act as a tool for we in agriculture production in much the same manner, and here with this legislative package we are asking for a sharpening or a fine tuning of that tool, to allow us to do that job in a better manner.

As we do that job and if it does this for us to do that in a better manner who are the beneficiaries, and I think we have to look down the road. We need to produce as efficiently as possible and to me the ultimate beneficiary of this is the consumer, and certainly that's what we in agriculture production have to orient our activities toward.

We have heard and we have talked and we have hashed these provisions, beginning with numerous other provisions and have to, again, fine tune it to the 28 proposals that you see in this package. I don't suppose there is anyone in Farm Credit that has everything in this package, any one individual that possibly they would like, but I would want to impress upon you, Chairman Jones, and members of the subcommittee, that after many, many hours of work and a lot of deliberation this is the package which we in Farm Credit feel is most suitable and practical for any changes that need to come about at this time and we would urge, excuse me, I would respectfully request that you would carry this word forward to your committee members in your deliberation.

I thank you for this time.

Mr. Jones of Tennessee. Thank you very much, Mr. Davis. I assure you that we will give every item that you covered serious consideration. We will also insert your prepared statement into the record.

[The prepared statement of Mr. Davis follows:]

PREPARED STATEMENT OF EUGENE C. DAVIS ON BEHALF OF THE
TWELFTH DISTRICT FARM CREDIT BOARD OF DIRECTORS

My name is Eugene C. Davis. I am from Bruneau, Idaho. In partnership with my brother, a son, a nephew, and a son-in-law, I own and operate a 4,490-acre family farm. We raise alfalfa hay, corn silage, and small grains with 900 mother cows, 800-1,000 head of yearling cattle, and a 5,000 head capacity feedlot. I have been a PCA member since 1959, have served as a PCA board member, and for the last five years have served on the Twelfth District Farm Credit board of directors. I am currently Chairman of that board, and I am appearing before you on behalf of the Twelfth District Banks, Production Credit Associations and Federal Land Bank Associations.

Previous testimony in these regional hearings have brought out many good aspects of the Farm Credit System. I echo those sentiments by expressing my feeling of pride in the accomplishments that have happened when farmers have been given a free hand and constructive credit to back them up. But if we stop to congratulate ourselves and believe that there are no further advancements or improvements on the horizon, then we will choke off the next generation of farmers. I see my own son and nephew growing up bursting with new ideas and eager to make new advancements. They have the same high hopes that my generation had; and it is for those young people that we must work. It is those young people who are most susceptible to failure if we fail to keep pace with the changes in agriculture. One thing that history has taught us is that we cannot ignore the undercurrents of change -- the dynamic forces that not only offer new challenges, but new opportunity.

The 28 proposals before you are not earthshaking, nor will there be irreparable damage if those proposals are not passed. However, they represent an opportunity to fine-tune, to update, to refine, and to modernize our credit system. Final passage of these proposals will give us the ability to expand the boundaries for agricultural innovators.

Much of our farm commodities in the Northwest are exported bringing in much needed income to our region from foreign sources. Nationwide, our farm products have been the muscle of our foreign trade giving us negotiating strength in other world matters. However, I do not believe that our full potential as net food exporters has yet been realized. Nor do I believe that we have achieved top efficiency in delivering food to foreign nations.

It seems a natural development to further utilize our Bank for Cooperatives' expertise in finance to help funnel our agricultural products into foreign markets. This expanded authority will complement their present financial activities. Also, our Banks for Cooperatives will be well prepared to exercise this new authority. Their staff will receive training to prepare them for their new duties, and internal guidelines and policies will be established that will enhance their position in world markets. This will give them the opportunity to continue their nearly 50-year history of unparalleled service to the farmer.

Strengthening our world food markets not only makes sound business sense, it also helps preserve the integrity of our dollar. Additionally, through the farmer cooperative, the benefits of exporting will be shared with our nation's producers. The farmers will establish close ties with their foreign customers and will be quick to react to any changes in their demand.

External demographic changes are causing another problem for cooperatives. Because the population mix of Rural America is changing, many cooperatives are losing their eligibility for Bank for Cooperatives financing. We are seeing utility co-ops, supply co-ops, marketing co-ops, etc., losing a competitive source of credit to the detriment of the primary users -- the farmers.

One of the proposals before you will put this problem into proper perspective for today's agricultural environment. Reducing the present eligibility requirements to 60 percent, farmers and ranchers would keep the control of these cooperatives and have more latitude in obtaining credit.

There is another portion of the amendments that speaks to our fishermen. For many years, our fishermen lacked adequate capital to compete with foreign fleets.

Most of our fishermen served on the periphery of the better equipped and more modern foreign vessels. When the Fisheries Conservation Management Act was passed expanding our boundaries to 200 miles, those fishermen scrambled to modernize their boats, expand their fleets, and build new facilities. However, without adequate credit sources, they were stymied, unable to build a viable, competitive industry.

The passage of the Weaver bill in October 1978, greatly increased their ability to obtain financing through the Farm Credit System. Our District PCAs have seen a dramatic increase in one year since the Weaver bill was passed. In less than one year, we have seen a 108 percent increase in aquatic loan volume alone, and 20 percent increase in the number of aquatic borrowers. The passage of the Farm Credit Act Amendments of 1979 will provide full membership rights to our fishermen including the ability for the System to finance needed services and related activities such as processing and marketing. Not only have they earned this right through their wise use of credit, but the Farm Credit System must look forward to the day when our fishing industry is utilizing our oceans to their optimum advantage.

Another proposal will allow the Farm Credit System more leeway to finance the processing and marketing function of bona fide farmers, ranchers, and aquatic producers. Many farmers, ranchers and aquatic producers achieve economic advantages in vertical integration. That is, they take their raw farm commodities further down the food chain, realizing savings in reduced transportation charges and handling fees. This has been a logical extension for many of our progressive agricultural people. It has also provided a means for our younger farmers, ranchers, and aquatic producers to fully utilize their management talents.

Under the present law, we are able to finance those farm-related activities of bona fide farmers, ranchers, and aquatic producers as long as 50 percent of the through-put was provided by the applicant. This has put an artificial cap on some operations. Many find that to build an efficient plant, they have to exceed the 50 percent limit. We feel that in order to serve agriculture today, we need the flexibility that a lower limit could provide. Each district board would then be able to set limits that would best service those producers in that district area.

Several of the proposed amendments would provide expanded authority to participate with non-System lenders in extending credit. We, in the 12th Farm Credit District, have long appreciated the need for cooperation with other lenders, because the ultimate beneficiary of such cooperation is our farming community. At no time is this cooperation needed more than in the years ahead. As agriculture becomes more complex, the banking industry must become more resourceful in meeting those financial needs. I envision broad community support for agriculture utilizing the skills and benefits from all sources of credit and financial assistance. If passed, these amendments will simplify and streamline our continuing cooperative efforts.

I do not believe that the architects of the Farm Credit System ever wanted it to be unchangeable, but wanted it to remain sensitive to the needs of agriculture. It is also our desire today to keep the Farm Credit System a first-class institution for our nation's number one industry. The farmers who have been served by the Farm Credit System owe a great deal to the vision of those Congressional leaders and the faith that those same leaders had in them. I also believe that those farmers have given us ample reason to continue that faith in their management ability and their productivity that we can continue updating this credit institution.

The 12th Farm Credit District has helped farmers, ranchers, and aquatic producers weather past hardships and has helped them capitalize on many opportunities. The 12th District's credit doors have been open during periods of tight credit as well as easy credit. There have been many periods when our PCAs and FLEAs have been the only credit institutions that would listen to a farmer's proposal. If a farmer could prove the long-run feasibility of a project, he would be assured that his plans would not be hindered due to a lack of credit. This attitude of our District has not gone unnoticed by the agricultural community, because we have gained the reputation of a dependable and reliable source of credit.

The 12th Farm Credit District has also contributed to the stability in our farming community by providing follow-up financing for innovative and productive projects in all economic climates. I believe it has also helped shorten our

nation's recessionary periods by financing the great increases in agriculture productivity. These increases in agricultural productivity were often the only bright spots during hard economic times. We cannot afford to lose momentum for our Northwest farmers, ranchers, and aquatic producers -- they are entering a great period of expansion and need a dependable, reliable source of credit.

By keeping a strong agriculture, we will be keeping a strong economy. In fact, if our history is read carefully, I would say that our nation's living standard could be improved as dramatically as it has been in the past. The benefits of a healthy and productive agricultural sector have shown a remarkable tendency to flow outward and to accrue to our whole nation. These amendments are necessary to keep that industry strong and resourceful. The changes before you have been judiciously researched and have been refined until they are in the state that you see them now. I ask that these amendments be favorably considered as submitted by your committee.

Mr. JONES of Tennessee. Our next witness is Mr. Howard Wuertz, of Coolidge, Ariz., chairman of the Farm Credit Board of Sacramento.

**STATEMENT OF HOWARD WUERTZ, CHAIRMAN, FARM CREDIT
BOARD OF SACRAMENTO**

Mr. WUERTZ. Thank you very much, Chairman Jones, and Congressmen. It's a real pleasure for me to be here.

My name is Howard Wuertz, and I am a cotton farmer and field crop operator, on a farm in Arizona. I have served on the Production Credit Board of Directors for some 22 years. I am a member of the Central Bank for Cooperatives Board of Directors and I am currently serving as chairman of the Eleventh Farm Credit District in Sacramento, Calif.

I do appreciate, Mr. Chairman, this opportunity to express our ideas in regard to the proposed legislative changes to the Farm Credit Act of 1971.

I am sure that you are aware of the fact that the Farm Credit System is owned by some 1 million farmers and ranchers in this country, and that it serves some 4,000 cooperatives in supply and marketing and processing cooperatives.

We are very proud of the amendments being proposed to the Farm Credit Act of 1971, and we would like to say to you that we have taken much time and much effort to see that the Farm Credit System has looked at all the proposals that are being made and feel that they have passed the test and have received the unanimous endorsement of all of the districts across the United States, as well as the Central Bank for Cooperatives and the Farm Credit Administration, as well as the Federal Farm Credit Board.

We think that the charge that Congressman Foley placed on us, as late as October 8, 1979, to make sure that the proposals that we offered be thoroughly examined and approved by all of the districts in the Farm Credit System, so that we offer a unified package that, as might be said, has gone through the baptism and purification of fire, and we believe, sir, that has been done. We would like for you to know the system unanimously endorses this package that is before you.

I wanted to just focus my comments on just a couple of those posed amendments in H.R. 4782, and they will be on export financing and the need for the Farm Credit and the Federal Farm Credit Board to hire and retain their staff.

In regards to export financing I know, Mr. Chairman, that you are aware that cooperatives in the United States have done an excellent job in being able to handle and market and process commodities for farmers and ranchers here in this country. They have handled more than a substantial majority, but when it comes to exports, cooperatives fall far short of providing the capability for American farmers to export their commodities and currently they export about 7 percent of all the agricultural commodities that are exported from this country. We think that is a serious disparity, but even with that small percentage of commodities that are sent in export trade, none of them, not one bit of that is financed by the Farm Credit System. This particular amendment would provide that the Bank for Cooperatives

could finance these products as they move in channels of world trade and we feel that this section of the proposed change in the law would be very helpful. We also feel that it would not be an infringement upon commercial banks rights to finance commodities in world trade, simply because we would not be financing any of those that were sent by companies, and the only ones that could be financed would be those that are handled by cooperatives.

As you know, it is expected in the next 5 years that the export commodities would increase from, say, 26 billion up to 40 billion. We would like to, as Farm Credit System, and the Bank for Cooperatives to be able to finance some of that increased volume and, again, we are thinking of a very modest amount of that so that we wouldn't be infringing on anyone's right, but merely providing those services for our cooperatives that we have been able to do in the domestic area. We would like to continue that on over into the export market and we feel that is an excellent way to serve American agriculture.

In regard to the Farm Credit Administration and their salary administration, I like to think that the Federal Farm Credit Board has the responsibility, presently, to hire the governor. They also have the responsibility to evaluate his performance and I believe that they should have the right to set his salary. That is not the case at the present time, because he is civil service and there are severe restrictions placed on him, as well as the deputy governors and other members of the staff at the Farm Credit Administration.

The change in the 1971 act suggested here in H.R. 4782 would make it possible for the Federal Farm Credit Board to not only, after having evaluated the governor's performance, but to set his salary in accordance with that performance and also to set the salaries of the deputy governors and other members of that staff. I think it would be most important that this be done, because I believe that the control of the Farm Credit System, supervision, examination by FCA would better be served if the people that were employed by FCA had come from the field. At the present time that cannot possibly be, because many of the presidents of the district banks are paid half again as much as, say, the governor of Farm Credit. We think that disparity ought to be corrected.

Mr. Chairman, I think that that pretty well summarizes the two areas of concern that we would like to talk about. Again, I want to thank you for the opportunity to share our ideas from the Eleventh Farm Credit District in Sacramento.

Mr. JONES of Tennessee. Thank you very much, Mr. Wuertz, for a very good statement and I assure you that we will take a serious look at your recommendations.

Mr. WUERTZ. Thank you, sir.

[The prepared statement of Mr. Wuertz follows:]

STATEMENT OF HOWARD A. WUERTZ

Chairman of the Board
Eleventh Farm Credit District
Sacramento, California

October 20, 1979

MR. CHAIRMAN:

MY NAME IS HOWARD A. WUERTZ OF COOLIDGE, ARIZONA. I AM AN OPERATING FARMER, HAVE SERVED AS A MEMBER OF THE BOARD OF DIRECTORS OF THE ARIZONA FARMERS PCA FOR 22 YEARS, AM A DIRECTOR OF THE CENTRAL BANK FOR COOPERATIVES IN DENVER, AND WILL REPRESENT THE ELEVENTH FARM CREDIT DISTRICT, SERVING ARIZONA, CALIFORNIA, NEVADA, UTAH AND HAWAII, TODAY IN THE CAPACITY AS CHAIRMAN OF THAT DISTRICT'S BOARD OF DIRECTORS.

I WANT TO EXPRESS MY APPRECIATION FOR THE OPPORTUNITY TO APPEAR BEFORE THIS SUBCOMMITTEE TODAY TO DISCUSS THE PROPOSED FARM CREDIT ACT AMENDMENTS OF 1979.

THE COOPERATIVE FARM CREDIT SYSTEM IS OWNED BY NEARLY A MILLION AMERICAN FARMERS AND 4,000 OF THEIR MARKETING SUPPLY AND BUSINESS SERVICE COOPERATIVES. IT IS DESIGNED AND HAS SUCCESSFULLY PROVIDED RELIABLE CREDIT TAILORED TO FIT THEIR HIGHLY SPECIALIZED NEEDS.

WE ARE PARTICULARLY PROUD OF THESE PROPOSED AMENDMENTS TO THE FARM CREDIT ACT OF 1971. THEY REPRESENT THE CONSENSUS OF A BROAD SECTION OF AMERICAN AGRICULTURE WORKING COOPERATIVELY TOGETHER ON BEHALF OF THE 37 FARM CREDIT BANKS SERVING AMERICA'S FARMERS AND RANCHERS.

THIS BILL, IN OUR JUDGMENT, REPRESENTS, PERHAPS AT ITS BEST, DEMOCRACY AT WORK. THERE ARE OBVIOUSLY DIVERSE AGRICULTURAL INTERESTS ACROSS THIS GREAT COUNTRY OF OURS, AND THIS BILL REPRESENTS THE GIVE AND TAKE OF THESE VARIOUS INTERESTS TO PRODUCE RECOMMENDATIONS FOR IMPORTANT CHANGES NEEDED TO MOST EFFECTIVELY SERVE THE CREDIT REQUIREMENTS OF OUR INCREDIBLY EFFICIENT AMERICAN AGRICULTURAL OPERATIONS.

THE PROPOSED LEGISLATION HAS RECEIVED THE UNANIMOUS ENDORSEMENT OF THE 37 BANKS IN OUR SYSTEM. IT IS A BALANCED PIECE OF LEGISLATION CAREFULLY THOUGHT OUT AND DEVELOPED OVER AN EXTENDED PERIOD OF TIME. THE ELEVENTH FARM CREDIT DISTRICT STRONGLY BELIEVES AND RECOMMENDS TO THIS COMMITTEE THAT THE PROPOSED LEGISLATION IS SOUND AND SHOULD BE PASSED IN THE FORM INTRODUCED IN THE CONGRESS, SO THAT IT CAN SERVE MOST EQUITABLY THE NEEDS OF ALL OF AMERICA'S FARMERS AND RANCHERS.

MR. CHAIRMAN, BECAUSE OF THE NEED FOR BREVITY, THE ELEVENTH FARM CREDIT DISTRICT WILL FOCUS ITS VERBAL TESTIMONY ON TWO PRINCIPAL ISSUES: EXPORT FINANCING AND THE NEED FOR THE FARM CREDIT ADMINISTRATION TO HAVE FAR GREATER FLEXIBILITY IN THE HIRING AND RETENTION OF THE STAFF WHICH SUPERVISES THIS \$55 BILLION LENDING SYSTEM. WE REQUEST PERMISSION TO INCLUDE ADDITIONAL COMMENTS FOR THE RECORD IN WRITTEN FORM.

EXPORT FINANCING

AGRICULTURE'S GROSS CONTRIBUTION TO THE UNITED STATES BALANCE OF PAYMENTS COMES ALMOST TOTALLY FROM THE CURRENT COMMERCIAL EXPORTS. IN CALIFORNIA ALONE IN 1979, IT IS EXPECTED THAT MORE THAN \$2½ BILLION OF COMMODITIES WILL BE EXPORTED TO FOREIGN MARKETS.

IN 1978, THE LAST FULLY REPORTED YEAR, EXPORT SALES FROM COOPERATIVES IN THE ELEVENTH FARM CREDIT DISTRICT ALONE TOTALED OVER \$800 MILLION. THE EXPORT OF AGRICULTURAL COMMODITIES IS VITAL TO THE SUCCESS OF FARMING AND RANCHING IN THE SOUTHWEST.

THERE ARE 13 COMMODITIES PRODUCED IN CALIFORNIA FROM WHICH MORE THAN ONE-HALF OF THE TOTAL UNITED STATES EXPORTS ORIGINATED IN THAT STATE. THE EXPORT FINANCING AMENDMENT OF H.R. 4782 RECOGNIZES THE VITAL ROLE OF EXPORTS TO COOPERATIVES AND TO OUR NATIONAL ECONOMY.

THERE ARE FIVE KEY BENEFITS TO THIS AMENDMENT TO FARMERS, THROUGH THEIR COOPERATIVES:

FARMERS WANT A LARGER, MORE DIRECT ROLE IN SELLING THEIR PRODUCTS AROUND THE WORLD. THEY HAVE BECOME KEENLY AWARE OF THE IMPORTANCE OF INTERNATIONAL MARKETS AND PRICES TO THEIR OWN LOCAL PRICES AND FARM INCOME. FARMERS WANT A LARGER SHARE IN THE PROFITS FROM EXPORT SALES.

FARMERS ARE ASKING THEIR COOPERATIVES TO PROVIDE THEM INCREASED PARTICIPATION IN MARKETING THEIR PRODUCTS ABROAD. BECAUSE THEY OWN THEIR COOPERATIVES THEY KNOW THEY WILL BENEFIT FROM ANY PROFITS DERIVED FROM COOPERATIVES SALES TO OTHER COUNTRIES.

COOPERATIVES ARE ACTIVELY WORKING TO INCREASE THEIR EXPORT SALES. PLANS ARE BEING DEVELOPED. FACILITIES ARE BEING OBTAINED OR CONSTRUCTED. MARKETING NETWORKS ARE BEING ASSEMBLED TO EFFECTIVELY MOVE COMMODITIES THAT ARE IN THE COOPERATIVE MARKETING CHAIN TO THE ULTIMATE FOREIGN BUYER.

COOPERATIVES ARE CALLING ON THEIR BANKS FOR COOPERATIVES TO PROVIDE INTERNATIONAL BANKING SERVICES TO FACILITATE THEIR EXPORT OPERATIONS. EFFECTIVE FINANCIAL TRANSACTIONS ARE KEY ELEMENTS OF SUCCESSFUL INTERNATIONAL TRADE.

THE BANKS FOR COOPERATIVES ARE PREPARED TO MEET THE INTERNATIONAL BANKING NEEDS OF THEIR COOPERATIVE OWNERS WITHIN THE RECOMMENDED AMENDMENTS TO THE FARM CREDIT ACT. THEY HAVE STUDIED THESE NEEDS AND HAVE CAREFULLY DEVELOPED PLANS FOR OFFERING SOUND CONSTRUCTIVE SERVICES ESPECIALLY TAILORED FOR COOPERATIVE EXPORTS.

WE BELIEVE IT IS IMPORTANT TO UNDERSTAND THE COMPLEXITY OF EXPORT SALES IN THE AGRICULTURAL AREA. AGRICULTURAL EXPORT PRODUCT SALES ARE CUMBERSOME AND DIFFICULT FINANCIAL TRANSACTIONS. IT INVOLVES PRODUCT IDENTIFICATION, DOCUMENTATION, DELIVERY, AND FINANCING ALONG A LONG CHAIN TO THE ULTIMATE RECIPIENT.

IT IS OUR JUDGMENT THAT THERE IS A NEED FOR ADDITIONAL FINANCIAL SUPPORT AND SERVICES TO AID COOPERATIVES IN ENHANCING THEIR EXPORT ACTIVITIES. OTHER COUNTRIES WITH WHICH WE TRADE DO NOT ALWAYS FULLY UNDERSTAND THE OPERATION OF AMERICAN COOPERATIVES. BECAUSE OF THIS, THERE IS A NEED TO AGGRESSIVELY SUPPORT OUR COOPERATIVES' EFFORTS TO EXPAND THESE IMPORTANT MARKETS. THERE IS A NEED TO MOVE IN A TIMELY AND AGGRESSIVE FASHION TO TAKE ADVANTAGE OF NEW AND GROWING MARKETS WHICH ARE DEVELOPING FOR OUR AGRICULTURAL PRODUCTS OVERSEAS. WE NEED TO ESTABLISH OPERATING RELATIONSHIPS WITH DOMESTIC AND FOREIGN BANKS TO TAKE THE FULLEST ADVANTAGE OF EXPORT OPPORTUNITIES AS THEY DEVELOP.

IT IS ALSO IMPORTANT, WE BELIEVE, TO UNDERSTAND THAT THE RISK FROM THIS TYPE OF LENDING IN RELATION TO NORMAL FINANCING IS VERY LOW. THUS, WHILE THE ABILITY TO PROVIDE EXPORT FINANCING WILL FILL AN IMPORTANT NEED FOR FARMERS AND RANCHERS, IT WILL NOT JEOPARDIZE THE FINANCIAL INTEGRITY AND REPUTATION OF THE FARM CREDIT SYSTEM BECAUSE OF THESE FACTORS AND THEIR IMPORTANCE TO THE SOUTHWESTERN STATES, THE ELEVENTH FARM CREDIT DISTRICT STRONGLY ENDORSES AND URGES THE EARLY PASSAGE OF THESE AMENDMENTS.

FARM CREDIT ADMINISTRATION AMENDMENTS

THE FARM CREDIT ADMINISTRATION, WHICH IS THE REGULATORY AND POLICY SETTING BODY FOR THE 37 BANKS IN THE FARM CREDIT SYSTEM, SERVES A CRITICAL AND KEY ROLE IN THE SUPERVISION AND INTEGRITY OF THIS SYSTEM.

IN 1979, THE FARM CREDIT BANKS WILL PROVIDE MORE THAN \$55 BILLION IN AGRICULTURAL LOANS TO AMERICAN FARMERS AND RANCHERS. IF PRESENT GROWTH RATES CONTINUE THE SYSTEM WILL BECOME A \$100 BILLION AGRICULTURAL CREDIT INSTITUTION WITHIN THE NEXT 5 YEARS.

IT IS VITAL TO THE BEST INTERESTS OF THE FARM CREDIT SYSTEM AND AMERICAN AGRICULTURE THAT THE REGULATORY AGENCY MUST BE ABLE TO HIRE AND RETAIN THE HIGHEST QUALITY STAFF TO CARRY OUT THEIR INCREASINGLY COMPLEX AND DIFFICULT RESPONSIBILITIES.

THE FARM CREDIT ACT AMENDMENTS OF 1979, AS INTRODUCED IN THE CONGRESS, HAVE SEVERAL AMENDMENTS WHICH WOULD PROVIDE THE AUTHORITY FOR THE FEDERAL FARM CREDIT BOARD AND THE SYSTEM'S GOVERNOR TO HAVE THE NECESSARY FLEXIBILITY TO INSURE THAT THE FARM CREDIT ADMINISTRATION IS ABLE TO FULLY MEET ITS OBLIGATIONS WITH THE FINEST PERSONNEL THAT ARE AVAILABLE.

WE THINK IT IS IMPORTANT TO POINT OUT THAT THESE CHANGES DO NOT INVOLVE THE EXPENSE OF ONE ADDITIONAL TAX DOLLAR. THE ENTIRE COST OF THE SYSTEM'S REGULATORY AGENCY IS PAID FOR IN FULL BY ITS USERS, THE FARMERS AND COOPERATIVES OF THE SYSTEM.

IT IS THE JUDGMENT OF THE FARM CREDIT BANKS IN THE SYSTEM, AND STRONGLY ENDORSED BY THE ELEVENTH FARM CREDIT DISTRICT, THAT THESE PROPOSED AMENDMENTS WILL ENHANCE AND ADD TO THE CREDIBILITY OF OUR SYSTEM'S COMMITMENT TO SOUND AGRICULTURAL CREDIT. WE BELIEVE THESE AMENDMENTS WILL STRENGTHEN THE CONFIDENCE OF THE GENERAL PUBLIC, INVESTORS IN OUR SYSTEM, AND THE FARMERS AND RANCHERS WHO DEPEND UPON IT OF OUR RESOLVE TO PROVIDE SOUND MANAGEMENT AND RESPONSIBLE CREDIT FOR AMERICAN AGRICULTURE.

WHILE WE HAVE DIRECTED OUR VERBAL COMMENTS TO ONLY TWO PARTS OF THE PROPOSED FARM CREDIT ACT AMENDMENTS OF 1979, WHICH THE ELEVENTH FARM CREDIT DISTRICT BELIEVES TO HAVE PARTICULAR MERIT, WE BELIEVE IT IS IMPORTANT TO EMPHASIZE THE IMPORTANCE OF THE CONTENT OF THIS LEGISLATION IN TOTAL. IT REPRESENTS, IN THE FORM INTRODUCED, THE BEST THINKING, THE BEST OF DEMOCRATIC GIVE AND TAKE IN DETERMINING AND SUBMITTING THOSE ITEMS FOR CONGRESSIONAL REVIEW AND ACTION WHICH ARE MOST NEEDED TO BE FULLY RESPONSIVE TO THE NEEDS OF AMERICAN AGRICULTURE.

AGAIN, THE ELEVENTH FARM CREDIT DISTRICT URGES YOUR MOST THOROUGH REVIEW OF THESE PROPOSED AMENDMENTS AND ENCOURAGES THEIR EARLY PASSAGE SO THAT THEY MAY BE BROUGHT ON LINE AND BE MADE AVAILABLE AS SOON AS POSSIBLE FOR OUR COOPERATIVE MEMBERS.

MR. CHAIRMAN, WE APPRECIATE THIS OPPORTUNITY TO BRING OUR VIEWS ON THESE ISSUES BEFORE YOUR SUBCOMMITTEE, AND WE WILL SUBMIT OUR ADDITIONAL WRITTEN COMMENTS TO THE COMMITTEE FOR INCLUSION IN THE RECORD.

SUPPLEMENTAL STATEMENT OF HOWARD A. WUERTZ

Chairman of the Board
Eleventh Farm Credit District
Sacramento, California

October 20, 1979

Mr. Chairman:

On behalf of the Eleventh Farm Credit District, I want to express our appreciation for this opportunity to extend our comments on the proposed amendments to the Farm Credit Act of 1971 (H. R. 4782) for the record.

For more than a year, the farm and ranch owners of the Farm Credit System have met and reviewed extensively the diverse credit and related service needs of the member/owners of our System throughout the United States. The list of proposed amendments was extensive, complex, and controversial. The member/owners of the System throughout the country carefully reviewed the potential impact and need of each amendment proposed by every member bank in the System. The amendments represented the best judgment of the farmers and ranchers who use the System with regard to changes and improvements needed to provide reliable credit for America's agricultural operations.

The proposed amendments which were reviewed were diverse and, in some instances, overlapped authorities and capabilities which already exist in one or another part of the System. For example, the System reviewed in some detail a proposal from the production credit associations to extend the regular term of their loans up to 10 years. After a most thorough and complete discussion throughout the System, it was the consensus of the System's owners that this extension of the term for PCA loans was not presently necessary and that it substantially overlapped authorities now provided to the Federal land banks.

Such an overlap would not materially improve or aid the credit needs of farmers or ranchers but would represent a significant potential for controversy and disagreement within the System had it been offered.

As a result, all of the districts, including and strongly supported by the Eleventh Farm Credit District, determined that the Federal land banks could more than adequately meet the credit needs which related to the recommendation for extended 10-year-term loans by PCAs. The System, based on this decision, decided not to submit an amendment which would have provided this change for consideration by the Congress.

This very pertinent illustration is indicative of the dedication and extensive review and evaluation which was given to this entire credit Act amendment proposal represented as (H. R. 4782).

The Eleventh Farm Credit District believes the resulting 28 amendments which were unanimously recommended by the member/owners through the banks of the System best represent the most significant needs of our producers as they work to meet the agricultural needs of our country in the years ahead.

This review process has proven invaluable in producing a responsible and well thought-out legislative recommendation. It is our hope that the extensive congressional review of these proposals will demonstrate the merit of the process which brought this legislative package before the Congress of the United States.

The Eleventh Farm Credit District commends the Agriculture Committees of the House of Representatives and the Senate for conducting a comprehensive congressional review of these proposals. We believe that it will add materially to the strength of the legislative revisions which are before the Congress and which we strongly recommend for passage and early implementation.

Of the amendments, the Eleventh Farm Credit District, serving the southwestern states, feels those sections related to expanded export financing authority are particularly important to the producers of our region of the country. The southwest and particularly California, is a leading source of favorable dollars in the balance of trade through the export of a wide diversity of grains, cotton, and various speciality crops. While certainly some export credit has been available, the opportunity for new markets and the growth of old ones for many of the western cooperatives is substantial if adequate credit and financial support for their efforts is provided.

The Farm Credit System's banks for cooperatives need to be able to provide cooperatives with the financial support and related export financing services required to fully take advantage of the opportunities which exist now and in the near term. They need a reliable proven source of credit which fully understands the unique operating and financial needs of American farmer cooperatives. Presently, the System's banks for cooperatives are unable to provide the full range of services needed by cooperatives and do not have the facilities to aid their members in fully developing the potential for export of agricultural products which exists.

The cooperative banking system can provide the necessary expertise to aid member-cooperatives in developing new markets. For smaller cooperatives dealing in highly specialized commodities this is a need which cannot be readily supplied through other sources. Export financing transactions are highly complex and there is less room for error in the terms, conditions and situations which occur as the products move from the farm to the ultimate customer overseas. Member-cooperatives look to their bank to be able to provide these kinds of support services and the amendments in the proposed legislation will provide the necessary authority to begin these important services.

The Farm Credit Administration is the policy and regulatory agency for the Farm Credit System. Under the policy guidance of the Federal Farm Credit Board, this agency has the responsibility for providing supervision and review of the System's operations. It has historically been noted for excellence in the performance of its responsibilities.

With the rapid growth of credit extended throughout the System, it is vitally important that this agency receive all the tools necessary to continue to successfully fully meet all of its responsibilities. In 1979, the Farm Credit System will lend more than \$55 billion and within five years, at its present growth rate, will exceed \$100 billion. Policy and regulatory guidance of a System of this size and complexity requires highly qualified technical specialists of the highest caliber. The Federal Farm Credit Board and the Governor of the Farm Credit System have incorporated into (H. R. 4782) several proposed amendments which will provide them with the needed authority to attract and retain the technical expertise required to meet the responsibilities of the Farm Credit Administration.

Incorporated into these changes is the authority for the Federal Farm Credit Board to set the salaries of the FCA Governor and Deputy Governors within the limits of the executive schedule and authorization for the Farm Credit Administration to set up its own salary and classification system for employees below the Deputy Governors, subject to the ceiling of the general schedule. It further authorizes the Farm Credit Administration to establish its own qualification requirements for positions within the agency.

The precedent for this authority is well established through other financial regulatory agencies to which the Congress has provided similar authorities. The Eleventh Farm Credit District believes that these proposed amendments will strengthen and enhance the stature of the System and its resolve to provide quality credit services.

While the Eleventh Farm Credit District in its testimony, both verbal and written, has focused its attention on only two of the 28 proposed changes, the district serving the southwestern states supports and believes that each of the proposed amendments merits passage by the Congress. Each of them represents a significant change which will better serve the needs of America's farmers and ranchers.

On behalf of the Eleventh Farm Credit District, I want to extend our appreciation to the chairman and the subcommittee members for this opportunity to further elaborate on the importance of these two amendments to the future growth and strength of the Farm Credit System.

Mr. JONES of Tennessee. Our next witness is Mr. Ross Larson.

Mr. Larson, thank you for being here and we appreciate the fact that you have come to testify.

**STATEMENT OF ROSS H. LARSON, FEDERAL LAND BANK
ASSOCIATION OF YAKIMA**

Mr. LARSON. I am Ross Larson, president of the Federal Land Bank Association of Yakima, Wash. My brother and I operate an apple orchard of about 200 acres in the Yakima Valley. In addition to that we own and operate a cold storage and packing facility, for not only our own fruit, but for the fruit of approximately 100 other local growers.

I am appearing here, not only as a farmer, but also as the president of the board of directors of the Federal Land Bank Association of Yakima. I want to thank you sincerely for the opportunity to appear before you today to present our views on H.R. 4782.

The Federal Land Bank of Yakima serves well over 1,000 members with outstanding credit of about \$66 million in an agricultural area. Over 35 percent of these loans are to orchardists, like myself, in the Yakima Valley. It's a substantially large industry in the State of Washington.

I am here today to address, basically, one of the 28 proposals and that's the financing and processing and marketing activities of bona fide farmers.

In our industry, on the packing of apples and pears and other soft fruits, it's changed so greatly in the past 10 or 15 years that instead of being labor intensive we are becoming quite capital intensive. In this need for capital for the marketing and processing of this fresh produce it is becoming very substantial. I believe that this is one place that is a bona fide extension of credit to help farmers do a better job or to help market their fruit better. There is a definite need for it.

The change in the methods of packaging fruit has changed considerably, has become very technical and very expensive and it is oftentimes not, it takes a lot of extra cash to put these operations together.

The credit that the PCA's and the land banks have given to farmers in our industry has been very much appreciated in this extension of credit, to make it available to those in the marketing and processing end is necessary and would be appreciated very much.

The Federal land banks and the PCA's have been a very good source of credit. We have needed it and it has done a fantastic job for us.

The Federal Land Bank Association of Yakima, of which I am president of the board, generally supports the entire amendments to the Farm Credit Act. We had one exception and that is that we didn't feel that any loan made, whether it's guaranteed or not, of over 85 percent is a sound loan, because it's the repayment capacity of the individual that's going to borrow the money. But even so we would support the entire amendment.

Thank you, again, for letting me appear.

Mr. JONES of Tennessee. Thank you very much, Mr. Larson, we appreciate your statement and we will take a very careful look at your recommendations.

[The prepared statement of Mr. Larson follows:]

PREPARED STATEMENT OF ROSS H. LARSON, FEDERAL LAND BANK ASSOCIATION OF YAKIMA

Mr. Chairman and members of the Subcommittee: I am Ross Larson, president of the Federal Land Bank Association of Yakima, Washington. My brother and I own and operate about 200 acres of apple orchard near Yakima. In addition, we own and operate a cold storage and apple packing facility that serves not only our own acreage but approximately one hundred other local farmers.

I am appearing here, not only as a farmer, but as president of the Federal Land Bank Association of Yakima. I want to thank you for the opportunity to appear before you today to present our views on House Bill 4782, the Farm Credit Amendments of 1979.

The Federal Land Bank Association of Yakima serves 1,150 members with outstanding credit of \$66 million in a predominantly agricultural area. Over 35% of the loans outstanding at our association have been made to orchardists in the Yakima Valley. There are in excess of 50,000 acres of orchard in the area we serve, and new plantings of orchard have been increasing significantly in recent years. We will ship over 200 million boxes of apples from the Yakima Valley to fresh markets this year alone.

In order to ship this quantity of apples and meet the growing demand for additional storage and packing facilities we must continue to enlarge and upgrade our facilities. That is why I am here today, to talk specifically of the proposed amendment to the Farm Credit Act of 1979 dealing with financing and marketing activities which are directly related to an agricultural producer.

The reasons we support this section of the amendments are:

(1) There is a definite need for credit to finance the storage and packing facilities which, in this industry with which I am familiar, have become sophisticated, technical and expensive. These facilities are, however, necessary to provide the best service to our growers.

(2) Providing adequate financing for the storage and processing activities strengthens the marketing system and thereby benefits both the producer and consumer.

(3) The financing of the processing and marketing activities are natural extensions of the credit services now provided by the Land Banks and Production Credit Associations.

(4) Those growers who wish to market through an independent packer should have equal advantage of modern and efficient facilities.

(5) The Federal Land Bank Associations and Production Credit Associations are in the position to provide a most dependable source of credit at the most competitive terms for a rapidly growing industry which will continue to require large amounts of capitalization.

We, as a board of directors, generally support House Bill 4782, the Farm Credit Act Amendments of 1979. Our board has only one exception which pertains to the removal of the 85% of appraised value lending limitation where guarantees are provided by governmental units. We do not believe a loan in excess of 85% is a sound loan even when guaranteed. A guaranteed loan at any level does not necessarily provide for a sound loan based on repayment capacity as we believe it should be.

The Federal Land Bank Association of Yakima is grateful for the opportunity to express its view before this Subcommittee and would be pleased to respond to any questions.

Mr. JONES of Tennessee. Our next witness is Mr. Ronald Watkins, accompanied by Mr. Rich Pennell of the North Pacific Grain Growers of Portland, welcome.

STATEMENT OF NORTH PACIFIC GRAIN GROWERS, INC. BEFORE THE
U.S. HOUSE OF REPRESENTATIVES SUBCOMMITTEE ON CONSERVATION AND CREDIT
RELATIVE TO H.R. 4782, THE FARM CREDIT ACT AMENDMENTS OF 1979

FIELD HEARING IN SPOKANE, WASHINGTON
OCTOBER 20, 1979

MR. CHAIRMAN AND COMMITTEE MEMBERS: My name is Ronald Watkins. I am a farmer from Benge, Washington and President of North Pacific Grain Growers, Inc., a federated, exporting, regional cooperative headquartered in Portland, Oregon. With me today is Rich Pennell, Manager, Producer Services, for our company who will comment on and respond to questions about our present and proposed use of the Farm Credit System relative to proposed authorities for international banking services.

The capital stock in North Pacific Grain Growers is owned by 47 local grain cooperatives scattered through Washington, Oregon, Idaho and Utah. The stock in these 47 cooperatives, in turn, is owned by some 18,000 grain producers like me who have a real stake in the issues you are examining here today. We are borrowers from and stockholders in the Spokane Bank for Cooperatives, and through this district bank with the Central Bank for Cooperatives in Denver. Just as North Pacific Grain Growers is a farmer-owned, self-help corporation, the Spokane Bank for

Cooperatives is a farmer-owned, self-help commercial institution. We deeply believe in the cooperative principles by which our marketing regional and our service bank have developed, grown and prospered. Our interest in the proposed legislation is deeply rooted in our desire to see that the Farm Credit System is modernized, broadened, and equipped to turn out effective credit tools with which we can meet tomorrow's changes, challenges, and opportunities.

In a little over a month, North Pacific will celebrate its 50th birthday. Due to our agronomic conditions, weather patterns, and proximity to the ocean, we have traditionally produced wheat for the export market. Thus, our area's farmers have a longer export history than our neighbors in the rest of the nation. The Pacific Northwest normally accounts for about 30% of our nation's total wheat exports. About 90% of our area's production is exported. We would like to share some of our export experience with you. We will comment on banking problems we have faced in the past; encounter at the present; and, anticipate in the future. We sincerely hope this will help you evaluate the proposed amendments to the Farm Credit Act and explain why we earnestly solicit your support of H.R. 4782. Now, I would like to ask Rich to cite some examples of things our management team faces in transacting export business.

RICH PENNELL: International banking institutions have traditionally been concentrated in New York City. When developing nations are extended CCC credit or receive authorization to

purchase US grain under concessional programs like Public Law 480, export documentation is understandably concentrated in Washington, D.C. A three-hour time difference alone frustrates rapid communication with government authorities and the banking institutions which normally negotiate export letters of credit. There is little incentive for a commercial bank in New York or Philadelphia to expedite the examination and approval of documents supporting sight drafts on letters of credit or other instruments. Anything sent by mail or courier simply goes into a stacked "in" basket regardless of its value. Delays translate into interest savings for them and interest expense for us. Many of the clerks responsible for verifying the accuracy and acceptability of documentation know little about grain or the grain business. The personnel turnover is rapid. Hence, we spend lots of time educating banking clerks who wield considerable power over the profit or loss of our export transactions. Often it pays for us to fly our own man to Washington and New York so he can hand carry documents and personally expedite their clearance, the honoring of our drafts, and subsequent transfer of funds to the West Coast. The odds are stacked against provincial companies like ours without offices in the East.

Banking difficulties are also a function of size. When we negotiated the letter of credit covering a \$2,972,562 cargo of wheat sold to Pakistan and shipped per the M/V NORDIC SKY,

our man personally presented the shipping documents to the CITIBANK in New York City. They had 40 people checking letters of credit. They had another 18 people assigned just to straighten out difficulties encountered by the original 40. This illustrates how frustrating it is to familiarize one person with, say, the US Grain Standards and then get one of the other 39 the next time around. Back to our example, after getting approval of the documents by CITIBANK, we had to go to Washington, D.C., present the bank's confirmation to the USDA that everything was in order, pick up a check for the GSM-5 credit funds covering the cargo and return to Portland with the deposit. In this electronic age we feel it's ridiculous to handle high-value transactions in this out-moded way. Yet we have no alternative until we can insert an agriculturally-oriented, cooperatively-owned bank into the picture who really cares.

The grain business is a classic example of low-margin, high-volume commerce. Reduced interest and handling charges mean higher prices for our farmer-owners and lower prices for our overseas customers. This, in turn, means US grain is more competitive in the international market. It strengthens our balance of payments position. Agricultural exports are one of the best ways to support the dollar and minimize inflation. We need to broaden and improve financial services available from the Bank for Cooperatives to facilitate international transactions. The proposed amendments to Farm Credit Act will do just that.

The Bank for Cooperatives will be permitted to establish correspondent relationships with appropriate overseas banks. The resulting reciprocal relationships will permit the exchange of bankers acceptances, notes, time drafts, currency exchange, credit reports on prospective buyers, and a structured method of exchanging documents and information vital to our business. The amendments would also permit the Bank for Cooperatives to assist us in joint ventures with foreign farmer cooperatives either for the construction of facilities or jointly owned trading operations. Another provision would permit the Bank for Cooperatives to finance capital investment for concurrent lease to our regional marketing cooperative. This could minimize our capital burden and reduce our cost compared to our procuring and owning such equipment. The proposed legislation would also authorize Banks for Cooperatives to invest in foreign financial institutions or servicing operations. This could facilitate and strengthen banking hands across the ocean, so to speak.

Please bear in mind none of these authorities will be used willy-nilly but will only be implemented after exhaustive, careful, prudent analysis and consideration. As an experienced borrower from the Spokane Bank for Cooperatives, we can assure you that these extended authorities will be used in a conservative, discreet, business-like manner. That's how they operate, and we're authorities on that subject. As stockholders we wouldn't want it any other way either. You should also remember these authorities *do not* require the authorization or expenditure of any government funds. The Farm Credit System obtains its own loan

funds primarily through the sale of securities to investors in our nation's commercial money markets. Therefore, we are fundamentally requesting that the Banks for Cooperatives be given access to tools with which farmers can help themselves.

I just returned from a trip through much of our Southeast Asian market. In countries like Indonesia, the Philippines, Malaysia, and Thailand, about 45% of the population is less than 14 years old. The People's Republic of China has an estimated 400 million people under the age of 18. As this rapidly expanding population attains child bearing age the demand curve for agricultural exports becomes mind-boggling. Obviously, these potential consumers must increase their purchasing power in order to gain access to the abundant production of our farmers. The Pacific Northwest is ideally located to serve this accelerating overseas demand. As petroleum prices spiral, our geographical advantage increases as compared to grain from the Gulf or Atlantic coasts.

As business to such destinations in developing countries grows, we will have an increasing need to collect reliable information about buyers, determine the financial capacity of importers, and evaluate the opportunities for joint ventures with indigenous cooperatives. We would like to have such investigative work conducted by people who understand agriculture and who are oriented to the cooperative system.

We respectfully request that the Farm Credit Act be amended to provide the Banks for Cooperatives with better tools to serve exporting regionals like ours not only today but more importantly tomorrow and the day after. We enthusiastically support H.R. 4782 and request your early and favorable consideration of its contents. We would be happy to respond to any questions you might have and are grateful for the opportunity to appear before you today. Thank you.

Mr. JONES of Tennessee. Thank you very much, Mr. Pennell and Mr. Watkins. That is a very good statement and we do appreciate your time and interest.

Our next witness is Mr. Melvin A. Ensley of Colfax, Wash.

Welcome, Mr. Ensley, we are pleased that you could be here and you may proceed.

**STATEMENT OF MELVIN A. ENSLEY, FARMER AND DIRECTOR,
FARM CREDIT BANKS OF SPOKANE**

Mr. ENSLEY. Chairman Jones, Mr. Marlenee, members of the subcommittee, we are pleased that you are here today.

I am Melvin Ensley. I operate about a 2,000 acre dryland wheat farm, raise peas, wheat, lentils, located about 60 miles south of Spokane, at a small town called Colfax. I have affiliations with a number of cooperatives in our area, including the Farm Credit Banks of Spokane and also the Central Bank for Cooperatives at Denver. I am past executive director of the Washington State Agricultural Stabilization and Conservation Service. Today I would like to appear before you as a farmer and as a rancher and, of course, as having an interest in the Farm Credit System itself.

I do not want to be repetitious so I will try to just summarize my statement to you, since I have handed in the statement for your perusal.

I know that you are aware of the magnitude of this system, the volume that it does at the present time, and also the record that it has had over the past 60 years. We know we cannot sit on our laurels, but we hope that this record will continue and through the change of times there is necessary occasionally that we update certain legislation and things that we are allowed to do, and that's somewhat what we are here for today, to take a look at some of those things.

We'd like to look briefly, and I'll try not to be too repetitious because you have had some pretty good statements already on some of the issues that I wished to discuss, but may I just call your attention, No. 1, to the request to lower the eligibility requirement for the farmer cooperatives. We are in changing times, we have an urban sprawl and a lot of these people that buy from our cooperatives are not what we call bona fide farmers. We want to serve those people and they need a place to buy and we need to stay in business for the bona fide farmer. My only belief is, in this case, that the farmer should retain absolute control of his cooperative, but that we should also serve these areas and this legislation would allow that if we do lower that eligibility. We still would retain the control of the cooperative and I think that is most important to our system.

The next one that I might touch on is the export financing. Your previous statement certainly clarified that in very fine detail. I might add this to it, that we have been giving this study and thought for about 4 or 5 years at the Central Bank for Cooperatives. We do now have a department there that is working in this area and it can function up to about a certain point and will, but the additional legislation would allow the full financing, which we feel would be to the betterment of our users of the system and I would leave it at that, unless there were further questions in that area.

You also touched on the expanded authorities of PCA's and Federal land banks to finance the processing and marketing activities. Because of larger farm and activities that was brought out in the orchard industry, we find these things are very desirable to help farmers and their neighbors or someone can build a processing plant or something to assist in the community. We think this is very beneficial. They aren't doing these things now and we are not able to finance all of them. We think our system should, for our own users, and I think this would be a very fine change in the legislation.

I would like to move onto a few things of general interest.

The aquatic thing was brought up a few moments ago. We are rather new in the aquatic lending business. As you know, that was authorized through the 1971 act. In this district it has become a very important factor to our lending. There were a few things overlooked at that time and they are probably housekeeping and the authorities that we are asking for are merely to bring the aquatic industry up to the same area of borrowing. Have the same authorities that we give to the other farmers and ranchers of our district, and that's about all that that really amounts to.

One other item is the uniformity to allow the 37 banks to participate in cross-loans. We have loan limits and it requires assistance, now, in the larger loans and this new authority would allow the entire banking system to cross-participate in these loans as well as going to commercial banks and we think this would be very helpful. As loans get larger this would be more important to our system.

Here's one that has had a little misunderstanding, the matter of authority to charter corporations. It has been thought that we might want to go out into the world and get into a lot of other areas, but this corporation request deals only with some in-house items that we think are rather important. I might mention a couple, at least. It would provide flexibility in organization for joint ownership of farm credit banks buildings, which we cannot do on that basis. Second, the computer system is quite highly used now and we could use a corporate method of handling the computer system where it is dealt in with the various banks on a joint ownership basis. There are other areas where this might be used, but it would be controlled very closely by the Farm Credit authorities that we would get and, of course, the current laws and regulations would apply, if it were granted to the system. So we feel it would be quite a bit of great deal of help if we could get that authority.

Let's just take a last look at this.

The Farm Credit System is chartered to improve the well being of farmers and ranchers, and that is basic. We think it should be kept that way. We hope these amendments would help to further this basic think for which we are chartered.

I want to thank you for listening to the testimony and for your concern of coming to our district and we know that you have a lot of interest in agriculture or you would not be here. So, thank you.

Mr. JONES of Tennessee. Thank you very much, Mr. Ensley, for a very good statement and we will be asking you some questions a little later. Without objection your prepared statement will be made a part of the record.

[The prepared statement of Mr. Ensley follows:]

**PREPARED STATEMENT OF MELVIN A. ENSLEY, FARMER AND DIRECTOR, FARM CREDIT
BANKS OF SPOKANE**

Mr. Chairman and members of the Subcommittee; I am Melvin A. Ensley. I own and operate a 1700 acre dryland wheat-pea farm near Colfax, Washington, located south of Spokane. I have affiliations with a number of farm cooperatives including the Farm Credit Banks of Spokane and the Central Bank for Cooperatives. I am a past Director of the Washington State Agricultural Stabilization and Conservation Service. I am appearing here today first as a Washington State farmer and second as a spokesman for the Farm Credit System.

You have been made aware of the dollar magnitude of the System and the excellent past record the System has in serving the financial needs of agriculture. I believe the three Banks have carried out their responsibilities well in the past and can do so in the future if they have all of the proper tools and authorities needed for the job. The most significant authorities being requested are:

(1) To lower the eligibility requirements of farmer cooperatives to borrow from the Banks for Cooperatives. Reducing farm numbers and other changes in several communities is forcing many cooperatives to diversify their clientele to include nonfarmers. We believe in farmer control of their co-ops, but we must also face economic reality. In many communities we need participating non-farmer business to help maintain the viability of our farmer co-ops.

(2) To provide authority for the Banks for Cooperatives to finance the export of farm commodities for farmer co-ops. It is recognized that export finance is a complicated business requiring the use of new legal instruments and authorities by the Banks for Cooperatives. Lack of these authorities creates a void in the Banks' ability to provide full service to its members who export agricultural commodities. As you are probably aware, we farmers in the Northwest depend upon the foreign export of much of our production. Export financing authority provides another vehicle to improve a farmer's ability to produce and market his crops.

(3) To expand authorities for PCAs and FLBAs to finance the processing and marketing activities related to a farmer's operation. The growth of many farm operations through the years includes the integration of the production of commodities with their processing and marketing. The proposed amendment would clarify the System's role in providing financing for this area of a farmer's operation. It is another sector which today is partially voided from Farm Credit System financing.

The proposed legislation also includes a number of issues which have significance to the System, but probably do not gather much interest elsewhere. I would like briefly to mention a few of these proposals.

(1) There are three separate issues which concern aquatic financing. Basically, these proposals provide the three Banks of the System the same authorities for financing commercial fishermen and their cooperatives as farmers and ranchers are allowed. The commercial fishing industry is expanding in our District and we believe it deserves the full benefits of the Farm Credit System to foster this expansion.

(2) We are asking for uniform authority to allow the 37 Banks of the System to participate in loans between themselves or with lenders outside the System. Currently, each Banking System has authority to participate in loans to some extent, but their authorities are not uniform. The proposal would allow the flexibility for Banks of the System to participate in large loans over individual Bank's loan limits for the benefit of an eligible borrower.

(3) The System requesting authority to charter corporations where this form of organization would best serve the joint needs of several of the Banks of the System. Examples of situations where this authority might be used are the formation of a corporation:

a. To provide a more flexible organization for joint ownership of Farm Credit Banks buildings, and

b. To provide a more flexible organization for ownership of computer equipment owned jointly by several Banks.

This authority would merely provide an efficient form of organization to handle joint operations of more than one Bank. Any service provided by a corporation in this text would be within the confines of current law and regulations.

The Farm Credit System is chartered to improve the well-being of farmers and ranchers. We believe the amendments asked for will provide an updated

basis from which we can perform this objective. I thank you for listening to this testimony and demonstrating your concerned interest in the Farm Credit System and the agriculture which it serves.

Mr. JONES of Tennessee. Our next witness is Mr. Dwyte Wilson, the executive vice president of the Oregon-Washington Farmers Union.

Mr. Wilson, it was good to get to see you again. We know that you have been before the subcommittee in Washington and we welcome you again this morning.

**STATEMENT OF DWYTE WILSON, EXECUTIVE VICE PRESIDENT,
OREGON-WASHINGTON FARMERS UNION**

Mr. WILSON. Thank you, Mr. Chairman.

I am pleased to see that you are coming here to get our ideas on the amendments to H.R. 4782. I am pleased to see that Chairman Jones is continuing the policy he established as chairman of the Dairy and Poultry Subcommittee—coming to the country and giving the people the opportunity to appear before the subcommittee.

I am Dwyte Wilson, executive vice president of the Oregon-Washington Farmers Union. My address is Vancouver, Wash.

I am filing a prepared statement for the record and in the interest of time I think that I will just mention a few of the highlights of things that we are concerned about.

The Farmers Union has had a long history of support for the credit agencies authorized by the Farm Credit Act of 1916.

In regard to these amendments, the first one, which was just mentioned, was the one to charter other corporations. I would like to comment on the proposed amendment to do just that.

Under present law district boards are empowered to authorize agreement between institutions within a district to provide for joint services to borrowers and to make joint undertakings between districts in providing joint services. Currently there are a number of these services provided for, such as recordkeeping, equipment leasing, real estate appraisals, service, sale of casualty and liability insurance, credit life insurance, crop, fire and hail insurance.

Attached to the statement is a summary of our policies adopted by the members at the last national convention. You will notice from that policy statement that they have expressed strong disapproval of the Farm Credit agencies engaging in the sale of insurance, except for credit life. Attached to this statement is an amendment which we propose to be suggested as an additional amendment to the Farm Credit Act, which you will note would prohibit them from engaging in the sale of insurance with the exception of credit life insurance.

The second objection we have, we would like to comment on the proposed amendment which exempts the farm credit agency from the Truth in Lending Act. For several years spokesmen for the Agency have urged Congress to exempt agricultural credit from the provisions of the Truth in Lending Act. This has been the case in spite of the fact that Farm Credit institutions provide only about one-third of the credit used by the Nation's farm families. We have been concerned about this and spokesmen have tried to exempt them from other institutions that provide agriculture credit and we feel here that this needs to be considered.

By and large, we think the amendments have a lot of good points. In listening here this morning you can see the need for additional credit in the field of aquatic services. The Northern Pacific Grain Growers made an excellent case for the need for additional credit to expand farm markets in the international trade. Only 7 percent of the grain, now, is moved by cooperatives in international trade.

We think that the farm credit agencies should give consideration and concentrate on expanding these badly needed services, rather than to expand into insurance and other services where we have numerous agencies today that are providing adequate services for farm families. So, therefore, the substance of our testimony is such that we are opposed to the expansion into the services that are already adequately provided, and rather to concentrate on expanding credit in the area where it is so badly needed.

Thank you, Mr. Chairman.

Mr. JONES of Tennessee. Thank you very much, Mr. Wilson, for your statement and we certainly appreciate your being here.

[The prepared statement and attachment thereto of Mr. Wilson follows:]



STATEMENT OF
DWYTE WILSON
EXECUTIVE VICE-PRESIDENT
OREGON-WASHINGTON FARMERS UNION

TO THE
HOUSE AGRICULTURE SUBCOMMITTEE ON CONSERVATION AND CREDIT

CONCERNING
H.R. 4782

A Bill to Amend the Farm Credit Act of 1971

October 20, 1979

Mr. Chairman and Members of the Subcommittee:

I am Dwyte Wilson, Executive Vice-President, Oregon-Washington Farmers Union. My address is 10453 N.E. Fourth Plain Blvd., Vancouver, Washington, 98662.

Farmers Union has a long history of support for the credit agencies authorized by the Farm Credit Act of 1916. Farmers today know these agencies as Production Credit Associations which provide operating credit, Federal Land Bank Associations which provide real estate loans, and the District Banks for Cooperatives which service the credit needs of farmers cooperative. The original intent of Congress in establishing these cooperative credit institutions was to give farmers a more satisfactory means of supplying themselves with credit.

The attached excerpt from the 1979 Statement of Policy of National Farmers Union further amplifies the attitude of our members toward the Farm Credit Administration and its agencies.

Now I would like to turn to S. 1465 with comments on its specific changes in credit policies and structure of the credit institutions under the jurisdiction of the Farm Credit Administration.

First, we would like to comment on the proposed amendment to the Farm Credit Act of 1971 which would authorize the FCA to charter corporations to perform service and financial functions. Under present law, district boards are empowered to authorize agreements between institutions within a district to provide for joint services to borrowers, and to make joint undertakings between districts in providing joint services.

Currently, such services relate to record-keeping, equipment leasing, real estate appraisal service, and the sale of casualty and liability insurance, credit life insurance, and crop, fire, and hail insurance.

As you will note from the Policy Statement mentioned above, our delegates have expressed strong disapproval of the FCA agencies engaging in the sale of insurance except for credit life insurance. It would be in order therefore, for questions to be raised concerning this proposed amendment to the Farm Credit Act.

For example, would extension of such authority to the Farm Credit Administration result in the establishment of an insurance company or companies and expansion into other businesses? We ask that the Subcommittee seriously question the need for such authority. What are the long-range implications of empowering the FCA to charter corporations for the purpose of extending services to borrowers which are not related to the direct lending operations?

Second, we would like to comment on the proposed amendment which exempts the FCA agencies from the Truth-in-Lending Act. For several years spokesmen for the agency have urged Congress to exempt agricultural credit from the provisions of the Truth-in-Lending Act. This has been the case in spite of the fact that the Farm Credit institutions provide only about one-third of the credit used by the Nation's farm families. We have strongly resisted the proposed change and, on one occasion, debated an FCA spokesman in a public Senate hearing, making what we think is a sound case for retaining full disclosure under the Truth-in-Lending Act for loans made to farmers by Farm Credit Administration agencies.

We therefore urge the Committee to give careful examination to this proposed amendment. Certainly the information called for by the Truth-in-Lending Act is readily available as loans are consummated, and we see no reason why this information should not be made available to farmer borrowers. We are especially concerned that other lenders also be required to comply with the Truth-in-Lending Act.

Third, we would like to comment on the amendment which would broaden the authority of the PCA's and the FLBA's to finance processing and marketing enterprises which would be a part of farming, ranching, or aquatic operations of eligible applicants and borrowers. There are several questions that we would like to raise concerning this amendment:

- 1) Would the making of such loans, which would require additional capital in the system, in any way interfere with the making of traditional loans available through the PCA agencies?
- 2) Would the authority which this amendment would extend result ultimately in the Farm Credit agencies making loans to businesses for processing and marketing, moving away from the farmer clientele that it has traditionally served?
- 3) Would the extension of such authority interfere with the lending operations through the Bank of Cooperatives which include loans to groups of farmers for processing and marketing purposes?

Fourth, another amendment sought by the Farm Credit Administration would authorize the BC's to finance export transactions, including allowing the BC's to make deposits in foreign banks, receive and hold credit balances from banks from borrowers, buy time drafts payable by foreign buyers, take part in currency exchanges, and make loans to facilitate transactions to foreign cooperatives.

This amendment is perhaps the most significant in terms of changing the nature of the lending operations of the Bank of Cooperatives.

International banking is a complicated business.

Our domestic banking institutions, for example, that engage in banking on an international scale have a huge network of overseas offices. It is therefore, difficult to comprehend just what is to be accomplished by extending the banker cooperatives' lending operations in a manner that would be authorized by this amendment. We urge the Committee to give consideration to the impact of this change and in this context to decide whether this authority is needed to give farmer cooperatives additional sales capabilities in international markets. Certainly, if it would accomplish that purpose, it would be a step in the right direction.

Fifth, S. 1465 would lower the percentage of farmer members of cooperatives borrowing from BC's from 80 percent to 60 percent except for rural electric cooperatives where the percentage of farmer members of cooperatives would be 70 percent. This change has been considered within our membership ranks for some time and in the attached Policy Statement you will find that it has the support of our delegate body.

Sixth, S. 1465 would clarify and reaffirm that lending by the Farm Credit system is exempt from state usury laws. It is obvious that such exemption does enable the FCA agencies to assure availability of credit for farmers and ranchers in "tight money" periods. To the extent that interest rates range above limitations set by the usury laws of individual states, farmers and ranchers, of course, pay a price for the maintenance of exemption.

The problem that we see with this amendment is that it is needed in the first place. It would obviously be to the best interests of farmer borrowers from FCA agencies if the credit available were to be at a reasonable cost, hopefully lower than other private credit sources. If such were the case, the question of exemption from usury laws would never have occurred.

Seventh, S. 1465 would require that only two nominees in each district be voted on in the election process for District Director, rather than three nominees as is required under present law. The case for this amendment, according to FCA spokesmen, relates to the fact that two nominees would assure that the elected District Director would receive a majority of the votes cast. Very frankly, we see relatively little merit in reducing the number of nominees. The three-nominee procedure would seemingly be in line with giving eligible voters additional latitude in the selection of a District Director.

Eighth, S. 1465 would amend existing law to remove FCA employees from the classification requirements of the Office of Personnel Management, but would continue the salary ceiling of the general schedule currently set at \$47,000 annually.

Further, the FCA would be enabled under the proposed amendments:

- 1) to establish its own requirements for qualification for positions in the agency;
- 2) to set salaries of the Farm Credit Administration Governor and Deputy Governors within the parameters of the executive schedule;
- 3) to be exempt from federal travel procurement and property regulations;
- 4) to be permitted portability of sick leave and retirement between Farm Credit system, district retirement plans, and Civil Service system; and
- 5) to increase the per diem of the members of the FCA Board to the daily equivalent of that prescribed for GS-18.

There appears to be some contradiction in these amendments.

Spokesmen for the Farm Credit Administration have expressed considerable pride on occasion on the autonomy of the agencies -- the fact that no federal funds are appropriated to sustain the agencies' operations is often cited as a major accomplishment of the Farm Credit Administration.

The conflict, as we see it, is between the amendments that would further exempt FCA employees from classification requirements of the Office of Personnel Management and to exempt the FCA from other federal regulations, and the amendment to allow for portability of sick leave and retirement between Farm Credit district retirement plans and the Civil Service retirement system. These amendments move in the opposite directions. The Committee, therefore, may want to give consideration to procedures in this connection which are consistent and, at the same time, reflect sound management policy.

S. 1465 provides for other changes in the operation of the FCA's credit functions. We have attempted to comment on those we think are of the greatest significance. There are some Washington observers who have characterized the changes in S. 1465 as moving the Farm Credit Administration and its agencies in the direction of a multi- or full-service banking institution. Whether this is good for farmers depends on the extent to which these agencies depart from the historic traditional mandate of the Congress directing them to serve the direct credit needs of the Nation's farm families. This is the yardstick that we urge the Committee consider as it acts on the comprehensive changes that would be authorized by S. 1465.

We would like to suggest that the present act be amended to reflect the policy as was adopted by our members at the last National Convention. The proposed amendment and an excerpt from the National policies are attached to this statement.

ATTACHMENT

Title IV of the Farm Credit Act of 1971 (Pub. Law 92-181) is amended by adding at the end thereof a new section reading as follows:

"Sec. 4.17 No institution of the Farm Credit System or Organization created under the authority of this act or any official or employee of any such institution or organization shall sell (I) insurance to a borrower or any other person eligible to receive services from such institution or organization, (II) Act as an agent or sponsor for any insurer selling insurance to any such borrower or other person, (III) otherwise undertake to provide or obtain insurance for any such borrower or other person, (IV) receive any fee, commission, rebate or other remuneration from the sale of insurance to any such borrower or other person, or (V) influence by recommendation or other action any such borrower or other person to acquire insurance from an insurer selected or sponsored by any such institution, organization, employee or official, other than credit-life insurance in connection with the loaning of the funds of said Farm Credit System."

EXCERPT FROM

NATIONAL FARMERS UNION
1979 POLICY STATEMENT

Adopted by Delegates
to the
77th Annual Convention
Kansas City, Missouri
March 11-14, 1979

Cooperative Farm Credit

We recognize that this cooperative system is dependent on the nation's money markets for its supply of loan funds and is thus largely unable to control factors that determine interest rates and the supply of money. Nevertheless, we urge that the system strive to ease the credit squeeze and reduce high rates of interest to family farmers and ranchers.

The Farm Credit banks should develop additional sources of loan funds to assure a plentiful supply of credit to farmers and ranchers at the lowest possible rates.

The securities of the Farm Credit System are available to individual farmers and ranchers and may be purchased from various dealers throughout the United States. In an endeavor to provide additional funding for the Farm Credit System, we urge that individual farmers and ranchers invest in these securities as they might invest in their own cooperative credit system.

We support the reduction of the membership criteria in the Bank for Cooperatives from 80 to 60 percent so the Bank can more adequately meet the financial needs of all cooperatives.

We urge Production Credit Associations to avail themselves of existing statutes which permit allocation of earnings on interest paid by the borrower.

The preeminent status of Farm Credit agencies in supplying credit to farmers, ranchers, and cooperatives gives such agencies the opportunity to exercise undue influence upon the purchase of insurance coverages by their patrons.

The prejudicing of farmers' and ranchers' choices of insurance coverages by suppliers of credit is contrary to the principle of free competition and abridges the freedom of choice by farmers and ranchers of their insurance coverage and of the general farm organizational or fraternal affiliations which are frequently associated with insurance.

The close relationship that exists between the federal government and the Farm Credit System makes the tie-in between sales of insurance and the granting of credit particularly objectionable.

Accordingly, we urge the Congress to prohibit the sale of insurance by Farm Credit agencies.

We recommend facility loans to include farm machinery and equipment.

Credit Policies and Programs

Farm credit is not a substitute for parity farm prices and income.

Access to adequate credit at reasonable cost is essential if family farmers and ranchers are to operate effectively and competitively. Government policies and programs should be designed to assure an adequate flow of credit to independent farmers and ranchers.

We deplore the constant escalation of interest rates which impose an intolerable burden, especially upon young farmers and ranchers whose initial capital requirements are excessive. The success of efforts by the capital-furnishing interests in abolishing usury limits dismay us. It is vital to the long-term survival of family farm/ranch agriculture to keep interest rates at a minimum.

Mr. JONES of Tennessee. Our next witness is Mr. Maurice W. Sanders of Emmett, Idaho.

Welcome, Mr. Sanders. We are pleased that you could be here and you may proceed.

STATEMENT OF MAURICE W. SANDERS, M. W. SANDERS ORCHARDS

Mr. SANDERS. Thank you, Chairman Jones.

I would like to introduce myself by saying I am an operator, together with my son in partnership in a 400 acre fruit ranch in Emmett, Idaho, just out of Boise, Idaho. We have been in the business, now, some 20 some odd years, starting out basically with growing and, then, getting into packing and processing, cold storages. In other words, all the facilities in order to take care of our own production.

I have had the opportunity of being on the National Apple Institute for a period of 12 years, and at that time I spent much of my time traveling around the country and did see the operations of many, and also the retail markets and the wholesale markets and the processing picture in itself. At that time, this was when I really got interested in building my own packaging operations and together with my operation, with quite a few neighbors that I have, I have been able to successfully operate and operate a fairly decent large operation, but I could not do it, mainly, without the neighbors that I do have and the people that I turn around and solicit for.

My main concern, of course, is, in my statement to you, Item No. 3, finance processing and marketing activities of bona fide farmers. My statement is repetitious of the other statements that have been made here, because I certainly support it under the conditions that exist today with the restrictions that we do have, it would be rather economically impossible for a man to start up, lots of times, with his own operation.

I know most of these adjustments are built around lots of consideration of young farmers, in order for them to get started. I think that with the ability that they have or the ability that a man does have, not only in processing and marketing, if he can gather his neighbors up, gather a little more up in order to make this economically feasible, I think is the right way and definitely the right way to go.

One key factor that I must say, the merchandise that we raise has to be marketed profitably in order for the returns to be proper, as far as the grower is concerned.

I have been involved in export outlets, involved in retail outlets. The information that I have gathered over a number of years, you know, have been tremendously good for me, because I have learned that this is really the whole process. We can raise a lot of merchandise in this country, but the profitability comes from marketing it.

I have solicited most of these things. I have a little bit of a question about the limitation or the extending the 85 percent limitation and I only look at that in one way. I know it's designed around getting the young farmer started, but 100 percent financing sometimes is an improper way, because of the fact of his ability to turn around and pay it back. I think if we can get over that hurdle so that he can pay it back, well, certainly, I am for it. Other than that, I think that we don't want to try to bury him before he gets started.

I thank you very kindly.

Mr. JONES of Tennessee. Thank you very much, Mr. Sanders, for a good statement and we do appreciate what you had to say and we will take cognizance of the fact that you mentioned those items.

Our next witness is Mr. Frank Niessner of Royal City, Wash.

Mr. Niessner, it's good to see you again, and we look forward to hearing from you.

**STATEMENT OF FRANK NIESSNER, DIRECTOR, FARM CREDIT
BANKS OF SPOKANE**

Mr. NIESSNER. Thank you.

Mr. JONES of Tennessee. I might mention that I know some of you gentlemen have appeared before our subcommittee in Washington and I may have overlooked the fact. I do recall that some of you have been there. I may not recognize all of you, but I do recognize some of you.

Mr. NIESSNER. Thank you very much, Congressman Jones.

Mr. Chairman, and members of the subcommittee, I am Frank Niessner, I am a Washington State farmer, operating a family irrigated farm in the Columbia Basin project.

With that I will submit to the record my statement and just kind of paraphrase it.

I would like to elaborate a little bit on our operation.

Our operation is strictly a family owned corporation. We operate in the area of vegetables, mainly potatoes and onions. We farm a substantial acreage. We do our own packaging and processing of potatoes and onions. We also handle grain through a grain company. We are in the marketplace on a year around basis and we have, in the last year, expanded in the area of exporting onions to Japan.

I come to this subcommittee in support of the entire package of the Farm Credit Act amendment, but more specifically I would like to comment, and limit my comments to the marketing and processing issue.

As our operations grow and have grown over the last 10 years, if we don't receive some relief in the area of marketing and processing we will be forced to leave the Farm Credit System, because we are starting to handle more and more of the neighboring farmer's crops and we are providing a service in our area where we do not have any cooperatives in this field to sell, market and export these crops overseas. If we don't receive this help we'll have to seek financing from the insurance companies, commercial banks and other areas and I feel very strongly about this. I don't want to leave the Farm Credit System, but I may be forced to.

We also have in our operations the control of marketive grain, so I want to support the export, crop export. We deal with North Pacific Trading, who has given a very fine statement here previously, but as this goes on it impacts on the entire community. It impacts on the labor, it impacts on the area and, therefore, I want to make my statement very brief and I want to stop here and just support the entire Farm Credit Act and also support that specific area that I have spoken to.

I will be available for questions, later.

Thank you very much.

Mr. JONES of Tennessee. Thank you very much, Mr. Niessner. We will call you back. Your prepared statement will now be placed in the record.

[The prepared statement of Mr. Niessner follows:]

**PREPARED STATEMENT OF FRANK NIESSNER, DIRECTOR, FARM CREDIT
BANKS OF SPOKANE**

Mr. Chairman and members of the Subcommittee: I am Frank Niessner, a Washington State farmer operating a family irrigated farm in the Columbia Basin Project. In conjunction with this diversified farm, the Niessner family operates a potato and onion fresh packing facility. The farming and packing operations were integrated to allow control of the marketing of our products and to bring family members into the operation. The capital expenditures required to construct an efficient facility also required utilization of potatoes and onions grown on neighboring operations.

I come before this committee to support the entire package of Farm Credit Act Amendments, but more specifically I would like to comment on the marketing and processing issue. The present law is not clear in the authority of Federal Land Banks and PCAs to finance the processing and marketing of agricultural commodities. The proposed amendment would clarify this situation and allow District Boards to establish policies to assist and control the financing of this integrated form of farming enterprise.

As my own operation grows, particularly in the processing of neighboring farmers' potatoes and onions, it will soon be ineligible for full Farm Credit System financing. Present regulations provide for full financing only if over one-half of the commodity processed or marketed is home grown. The current law therefore effectively eliminates an important segment of agriculture from Farm Credit System financing.

Agriculture, including its private farmer controlled marketing and processing industries, deserves and needs the full service of all the Farm Credit Banks. Success or failure of farmer-owned marketing and processing facilities does not impact upon the integrated farmer only. It impacts upon the entire community for which the processing or marketing facility serves. This is even more magnified when farmers have few or no other options in processing or marketing their crops.

The proposed processing and marketing amendment provides for more equitable financial treatment of all farmers, for increased competition, and for more financing options for farmers and ranchers. I believe the proposed amendments to be sound and for the betterment of all of agriculture. I thank you for hearing my testimony.

Mr. JONES of Tennessee. Our next witness is Mr. Chester T. Peterson, Southwest Washington Production Credit Association of South Bend, Wash.

Welcome, Mr. Peterson, and I see you have a gentleman with you. You may present him also.

**STATEMENT OF CHESTER T. PETERSON AND CALMAR T. PETERSON,
SOUTHWEST WASHINGTON PRODUCTION CREDIT ASSOCIATION**

Mr. CHESTER T. PETERSON. I am Chester Peterson, I am a commercial fisherman and a borrower of Southwest Washington Production Credit Association, and also a processor.

I would like to introduce my son who is the general manager of this operation, Calmar Peterson.

Mr. JONES of Tennessee. Mr. Peterson, we are delighted to have you also.

Mr. CALMAR T. PETERSON. Thank you, Congressman Jones, Mr. Marlenee.

We are new to the Farm Credit System and we are not familiar with all of the issues of the bill, but we are specifically interested in the processing and marketing aspect of the proposal, because to us this offers a financing means that is not presently available to us.

Our comments on this will pertain specifically to the fishing industry. The fishing industry, we are new to the processing in the fishing industry.

Let me tell you a little about our company, Peterson & Son Seafoods.

We process, our sales for the last couple of years have gone from about \$1 to \$3 million and next year we are projected to \$4.5 million, so we are growing. We have need for financing.

My father's fishing vessel is valued at approximately \$800,000 and employs three to four people, produces about a million pounds of shrimp with an outside value of about half a million dollars. Our processing operating, this year we processed about 3 million pounds of shrimp, that's about 600,000 pounds of finished product. We will process about half a million pounds of crabmeat and 1 million pounds of bottom fish.

Our company is 2 years old. When we went into the operation 2 years ago it was specifically for shrimp and we probably have the most modern plant on the Oregon-Washington-California coast for processing the shrimp. This plant has been financed totally by family funds. It requires additional investment to go forward into other operations. We find that, in our recent introduction to the farm credit system we find that the financing arrangements in the farm credit area appeal more to us, because of the people in the Federal intermediate credit banks are more familiar with seasonal financing, more familiar with the financing of the kind of operation we have. The commercial banks have done a good job for us, but they just don't seem to relate specifically to the types of seasonal business that we have, the same as the farmer has.

We have received benefits from the Weaver Act that has recently been passed. Fifteen-year terms for financing, this is a good thing for us because of the new 200-mile-limit laws that are going into effect require additional investment in plant and equipment. The pressure built up by the 200-mile limit has created a fishing fleet which can far outproduce the short facilities capacity to process the fish now coming to the dock. The additional financing is necessary in this area for shoreside facilities.

As we understand the act, if financing becomes available for, under the land bank portion, that financing for docks and buildings which do not now exist would have possibly longer term financing in 15 years. Again, with the additional pressure coming from increased fishing capacity, we need plants and we need shoreside facilities that do not now exist.

Also, entering the world market of selling our fish overseas. In order to enter these markets we need to have automated equipment that will allow us to produce a product at a greater economic advantage to compete in the world market. Again, we need financing terms, 15-year terms for this.

In summary, I feel that the financing of processing and marketing operations for small businesses such as our own has tremendous ap-

peal and advantage to the fishing industry at this time, because of the number of small producers in the fishing industry and their desire to expand their operations and to take advantage of the increased opportunities in the fishing industry.

We want to thank you for the opportunity to speak here today, and we look forward to a very positive result in the farm bill amendment.

Thank you.

Mr. JONES of Tennessee. Thank you very much, gentlemen, and we will have some questions to ask you about the fishing industry, a little later. A very good statement and we appreciate it very much. We will place your prepared statement in the record.

[The prepared statement of Mr. Peterson follows:]

PREPARED STATEMENT OF CHESTER T. PETERSON, ON BEHALF OF THE SOUTHWEST WASHINGTON PRODUCTION CREDIT ASSOCIATION

Mr. Chairman and members of the Subcommittee, I am Chester T. Peterson, member-borrower of Southwest Washington Production Credit Association; Commercial Fisherman for 40 years; Owner-operator of the 86' fishing vessel Pacific Challenger out of South Bend, Washington; Owner of Peterson Seafoods, Inc., South Bend, Washington, processor of shrimp, crab and bottom fish. Peterson Seafoods is a solely owned corporation with my son Calmar T. Peterson as Vice President and General Manager.

The Pacific Challenger represents an investment of some \$800,000.00, hires a crew of 3 to 4 people and produces 1,000,000 pounds of shrimp annually with a dock side value of \$500,000.00.

Peterson Seafood processes 3,000,000 pounds of shrimp (600,000 lbs. of finished product), 500,000 pounds of crab meat and 1,000,000 pounds of bottom fish annually.

This represents a payment to fishermen of some \$2,100,000.00, requires a labor force of 40 people on the average, with a labor peak of 120 people.

Calmar T. Peterson is Vice President and General Manager of Peterson Seafoods. He has 10 years commercial fishing experience and has managed Peterson Seafood for the past 2 years.

The major emphasis of my remarks are directed to the area of "Finance Processing and Marketing Activities of Bona Fide Farmers", to include aquatic operations, shore facilities, processing and marketing of aquatic products as follows:

1. Shore facilities should be expanded and modernized to complement the fishing fleet and to meet the future requirements and opportunities of the 200 mile limit. A one-stop source of dependable financing would enhance this goal.

2. Capital investments must be finished to meet future demands. Terms that match the useful life of the investment, the repayment capacity of the operation and the cash flow periods of fishing, processing and marketing are as important to the aquatic industry as they are to modern agriculture.

3. Fishermen—Processors and the fishing industry would benefit from the legislation thru:

- A. Improved shore facilities.
- B. Improved market for catch.
- C. Improved product for the consumer.

Each of these improvements relate to better economics for the industry.

4. Extending PCA financing into the realm of processing and marketing activities of fishermen would provide a much needed continuity of financing. Marketing, in some fisheries, is becoming nearly as important to the viability of the fishing business as is the catching of the product.

In my own business, the ability to receive financing from the local PCA would help my profitability. Not only would it directly benefit me, but it would also help the fishermen who sell their seafood to my processing plant because they would be able to rely on a financially stronger small local processor.

In order to make this a reality, the extension of credit by the Farm Credit System to include financing of processing and marketing directly related to bona fide fishermen and seafood processors should receive positive consideration.

There is a need for the extension of credit that would be provided by House Bill 4782, The Farm Credit Act Amendments of 1979. Benefits would reach beyond fishermen themselves, by providing employment opportunities, generating

tax dollars and by making seafood products processed at home available to the consumer.

Mr. JONES of Tennessee. Our next witness is Mr. Roy Gunnari, Southern Oregon Production Credit Association, Coos Bay, Ore.

Mr. Gunnari, you have been in Washington several times recently, and we are delighted to see you before our subcommittee again.

STATEMENT OF ROY E. GUNNARI, SOUTHERN OREGON PRODUCTION CREDIT ASSOCIATION

Mr. GUNNARI. Thank you, Mr. Jones.

I appreciate the opportunity to be here and I also would like to personally thank you for your kind views on your 15-year loans that are now in law and the fishermen are forever grateful.

My name is Roy E. Gunnari. I own and operate two trawlers, fishing for shrimp and ground or bottom fish. I also have been appointed by our Secretary of Commerce as a voting member of the Pacific Fisheries Management Council, and above all I am a member of the board of directors of Southern Oregon Production Credit Association. In this capacity I not only represent fishermen, but farmers and ranchers of the five southwest counties of Oregon. My association serves approximately 1,250 members, with an outstanding loan volume of approximately \$54 million and assets of \$7.5 million. My association and the members served by my association recognize the tremendous benefits provided by the Farm Credit Administration in providing a dependable source of credit, historically, for both agriculture and the budding commercial fishing industry. I appreciate this opportunity to present the view of Southern Oregon Production Credit Association concerning H.R. 4782, the Farm Credit Amendment of 1979.

The major points of my testimony will address the amendment that allows bona fide farmers and fishermen to finance processing and marketing activities of their own or neighboring farmers' and commercial fishermen's products.

At this time I am going to deviate from my written statement because facts have arisen since I wrote this.

It's only 2 days ago that a fisherman came to me, which they often do because of my affiliation with the fisheries, and stated he had a very severe problem. He has four commercial vessels, just like myself and Mr. Peterson has, and he owns portions of a building and land, a production business is renting from him and who, in turn, buy his product from his vessels. He was just informed that a big food chain has given a bid to buy out this production business and they intend, with their own vessels, to produce the raw material for this production agency, thus putting his vessels without a market. He came to ask me if there was any way that there was financing available for him, as a fisherman, to make a counter bid to buy this business, instead of letting the food chain have it. I told him it was possible, but it had strings attached. For one thing, I said, if you get it from the PCA on a term loan, being a fisherman, you would have to reduce 51 percent of the raw product going into this production business and only could buy 49 percent to be eligible.

This fact is very fine as long as the seasons are good and both can produce, say, 1 million pounds to the boat, as Mr. Peterson stated, in

a good year and that would allow him to process 8 million pounds through his plant, but he was looking forward to these poor years, such as this year. Then if his production dropped to half of it the business could only produce half of what it was in the previous years. The only advantage he would have would be to buy another vessel or more to bring up his 51 percent up to and meet the demand and get a continuous flow out of this production plant. He said immediately that he couldn't foresee doing this investment under these circumstances, that he couldn't foresee going and putting in an investment and maybe not being able to produce what he would require to make it a profitable business.

I explained to him what H. R. 4782 would do to him, if it were passed. It would allow flexibility, that he wouldn't have to produce his 51 percent from his own vessel, but when production is low he could buy from his neighboring fishermen, giving markets to them, and a continuous flow of his product. He stated immediately that if this bill were passed he still hopes that this plant-buying opportunity or business-buying opportunity was still there and he would immediately apply to the PCA for such a loan.

This is just one example of many, I'm sure, of what's going on.

We sincerely and respectfully solicit the subcommittee's affirmative consideration for the current legislation contained in these amendments to the farm credit bill, know as H.R. 4782. The Southern Oregon Production Credit Association is grateful for the opportunity to express its views to this subcommittee.

I would be pleased to respond to any questions upon call.

Mr. JONES of Tennessee. Thank you, Mr. Gunnari, and we will be calling you back for some questions.

I want to say to this group that Mr. Gunnari's testimony in Washington, sometime back, had much to do with causing this subcommittee to take notice of the fact that there was some need for participation in the fishing industry in the FCA work. We will place your prepared statement in the record.

[The prepared statement of Mr. Gunnari follows:]

PREPARED STATEMENT OF ROY E. GUNNARI ON BEHALF OF THE SOUTHERN
OREGON PRODUCTION CREDIT ASSOCIATION

My name is Roy E. Gunnari. I own and operate two trawlers, fishing for shrimp and ground or bottom fish. I also have been appointed by the Secretary of Commerce as a voting member of the Pacific Fisheries Management Council, and above all I am a member of the Board of Directors of Southern Oregon Production Credit Association. In this capacity I not only represent fishermen, but also farmers and ranchers of the five southwest counties of Oregon. My association services approximately 1,250 members, with an outstanding loan volume of approximately \$54,000,000, and assets of approximately \$7,500,000. My association, and the Members served by my association, recognize the tremendous benefits provided by the Farm Credit Administration in providing a dependable source of credit, historically, for both agricultural the building commercial fishing industry. I appreciate this opportunity to present the views of Southern Oregon Production Credit Association concerning H.R. 4782, the Farm Credit Act Amendments of 1979.

The major points of my testimony will address the Amendment that allows bona fide farmers and fishermen to finance processing and marketing activities of their own or neighboring farmers' and commercial fishermen's products. The Fishery Conservation and Management Act of 1976, Public Law 94-265, as enacted provided for a program for the conservation and management of fishery

resources within a declared fishery conservation zone through a system of fishery management plans prepared by regional fishery management councils. This act, subject to special conditions, excluded foreign countries from participating in the fishery resource within 200 miles of our shore. Subsequently, the Act opened up to domestic fishermen a tremendous potential of production in fisheries that were previously under-utilized by domestic fishermen.

We feel that the development of this potential is dependent upon financing a vertically integrated market. The harvester or producer of the raw product needs a processor to accept that product and the processor needs a marketing agency to dispose of the product. The marketing agency is reluctant to expend the funds necessary to develop the market unless he can receive assurance from the processor that he will have a continuing source of supply. This processor is reluctant to expend the funds necessary to gear up to process the commodity unless he can receive assurance from the harvester that the product will be produced in sufficient quantity to merit the capital investment. Presently, we are, we feel, adequately financing the harvester of the raw product, the fisherman. Also, we have policies allowing fishermen, on a selective basis, to enter into a processing activity as long as that fisherman provides a minimum of 51% of the initiating product. As the operation evolves into a large economic unit, the fisherman must acquire additional vessels, to support the percentage factor. We feel that the present law drastically limits the growth and development of the industry and the individual fisherman involved, and the amendments to the Farm Credit Act as set forth in this legislation could successfully alleviate the existing problem, by reexamining and/or reestablishing the percentage factor to allow commercial fishermen involved in a processing activity to broaden their sources of supply.

We sincerely and respectfully solicit this sub-committee's affirmative consideration for the current legislation contained in the amendments to the Farm Credit Bill known as House bill H.R. 4782.

The Southern Oregon Production Credit Association is grateful for the opportunity to express its views before this sub-committee. I would be pleased to respond to any questions.

Thank you.

Mr. Jones of Tennessee. The next witness is Mr. Delbert R. Wisdom, Walla Walla Production Credit Association, Mesa, Wash.

Mr. Wisdom, we are delighted that you are here. Thank you for coming. Because the witnesses are so explanatory with the problems that they are discussing, I doubt seriously that there will be many questions.

Mr. Wisdom, you may proceed.

STATEMENT OF DELBERT R. WISDOM, WALLA WALLA PRODUCTION CREDIT ASSOCIATION

Mr. WISDOM. Thank you, Chairman Jones.

Mr. Jones and members of the subcommittee, I am Delbert R. Wisdom. I own and operate a 640-acre family farm on which carrots, onions, alfalfa hay, and other miscellaneous vegetable crops are grown.

Today I am speaking on behalf of myself, as a farmer, and also on behalf of Walla Walla Production Credit Association.

I wish to thank you for the opportunity of appearing today and especially for your continued interest in providing very valuable financial assistance to farmers through the Farm Credit System. Even though the system is farmer owned and operated and not a user of federal funds, the government's encouragement and legal structuring provide the guidelines, services and opportunities which farmers need to produce a strong agricultural base for the Nation's economy.

My remarks will be confined to a single proposal of H.R. 4782. The amendment which I find to be of particular benefit to me broadens the authority of Federal land banks and production credit associations to finance processing and marketing activities which are directly related to an agricultural producer's operations and those of other bona fide producers. This proposal is intended to assist farmers, ranchers, and fishermen who are now eligible to borrow from the Farm Credit System, to acquire or improve a processing or marketing capability for their own agricultural production.

As a variety of costs continue to escalate, it is imperative that farmers have at their disposal several options from which to choose in order to maintain a healthy business posture.

Approval of this proposal will allow me to have the option to procure financing for facilities necessary to prepare vegetables for sale on a fresh market. As the cost of transportation becomes a great factor in both the cost and availability of food to the consumer, regional and/or local buying will become a significant reality. Already the demand for local production is expanding, however, the product must be market ready. This proposal will enable PCA's or Federal land banks to make available funds which will allow farmers to acquire processing or marketing facilities germane to preparing fresh market product for market readiness.

May I add that our farm produces approximately 26 million pounds of carrots and approximately 6 million pounds of onions, among other things, all of which are processed by companies other than farmer owned or controlled entities.

This proposal, H.R. 4782, will provide those of us in this situation to provide some of our own processing facilities. One of the big problems and large expenses that we have is transportation from our farms to these processing centers many miles from our farms. Our annual cost of transportation, in conjunction with f.o.b. purchasing of the processing product, has to be transported and paid for by the processing company, exceeds \$150,000 a year. With the cost of fuel escalating as it is, it is imperative that we do something to reduce this bill for ourselves and the consumer.

While such processing and marketing facilities could contribute greatly to improved farm income, reduced consumer cost of food, and increased availability of a variety of products, there are other side benefits which accrue as well to such a program. Dispersal of labor forces from large population centers with attendant unemployment to rural employment opportunities should become a reality. Another significant factor is that on farm processing will relieve already over-taxed city disposal systems, thus saving municipalities many thousands of dollars each year.

As conditions change in the agricultural sector, Farm Credit Act Amendments of 1979 will allow production credit associations and land banks to be in a position to respond to the developing needs of their members. Only a variety of financially related services will insure that farmers, such as myself, will be able to meet the challenges and opportunities that lay ahead. If these financially related services are provided by land banks and production credit associations, farmers will be assured of sources of funds at reasonable interest rates.

The Farm Credit System has, in the past, been greatly beneficial in providing funds at reasonable cost to producers. Now is the time for credit production associations and Federal land banks to expand that valuable service to financing processing and marketing activities of farmers. H.R. 4782 will enable them to do so.

Thank you for the opportunity to express my views and I, of course, will be happy to answer any questions.

Mr. JONES of Tennessee. Thank you very much, Mr. Wisdom. We do appreciate your being here.

Our next witness is Mr. Marvin Tade, of Scobey, Mont. I am going to yield to my colleague and good friend Ron Marlenee, for an introduction.

Mr. MARLENEE. I would like to welcome Marvin to the subcommittee. We grew up together and I guess we grew together and Marvin is a very fine example of what the Farm Credit System can do for you and with you, when you work with them. I am very proud of Marvin and his accomplishments.

Welcome to the subcommittee.

STATEMENT OF MARVIN TADE, NORTHEAST MONTANA PRODUCTION CREDIT ASSOCIATION AND FEDERAL LAND BANK ASSOCIATION, SPOKANE DISTRICT OF THE FARM CREDIT DISTRICT

Mr. TADE. Thank you, Ron, and good morning, Mr. Jones.

My name is Marvin Tade and I am here to represent the Sidney, Mont., Federal Land Bank Association, and the Northeast Montana Production Credit Association.

To give you a little background on my farm, we have a family corporation. There is myself, two sons and a brother that are involved in this. Our main crop is wheat. We have a few brood cows and we have a hog confinement finishing barn and we have a, well, I guess you would call it, part of this farm-related business, we have a wholesale-retail milk delivery route that we cover two counties with.

I think probably the main item of interest on this from the board of directors on both the Production Credit Association and the Federal Land Bank Association that I am affiliated with are in line with the farm-related services. I know in both our associations we have had different things come up, like a veterinary clinic that didn't quite qualify on the farm-related part of it and we have had custom farming operations that didn't quite get in under the present law. We feel that this is the main part of the proposal that we would like to see changed. There has also been a custom seed-cleaning plant that's just on the fringe deal there, that he couldn't put 51 percent of his production through the plant and so we would sure like to see that part of the proposals changed.

Another part of the proposal is this, to let the Bank of Cooperatives finance grain exporting. The board and the members that I have talked to, it seems like there is just no doubt if we could get this accomplished it would be in the best interest of agriculture as a whole.

I think the rest of the stuff I have covered in my written testimony.

I thank you for letting me talk and if you have any questions later on I'll be glad to try and answer them.

Mr. MARLENEE. Thank you, Marvin.

We will submit the full text of your written testimony for the record and there will, perhaps, be some questions. Thank you.

[The prepared statement of Mr. Tade follows:]

PREPARED STATEMENT OF MARVIN TADE ON BEHALF OF THE NORTHEAST MONTANA PRODUCTION CREDIT ASSOCIATION AND FEDERAL LAND BANK ASSOCIATION, SPOKANE DISTRICT OF THE FARM CREDIT DISTRICT

I am Marvin Tade from Scobey, Montana, representing the Federal Land Association of Sidney, Montana, and the Northeast Montana Production Credit Association of Wolf Point. Presently, I am President of the Sidney Federal Land Bank Association Board of Directors and Chairman of the Board for the Northeast Montana PCA and operate a farm near Scobey with a brother and two sons. The farm consists of small grains, but we also run cattle and operate a confined hog operation.

In this written testimony, I will not cover all of the proposals in the Farm Credit Act Amendment of 1979.

The financial processing of market activities of bona fide farmers should be broadened along with the eligibility for financing by the FLBAs and PCAs to include the processing and marketing activities directly related to the applicant's farm or ranch. It is our understanding that in the original Farm Credit Act of 1971 that this was to be allowed, but in the process of legislative actions, this specific issue was compromised. If this act could be restored to its original state, we feel that we would be able to serve these clients. In my oral testimony I made reference to "a young man who moved back to manage his father's livestock operation. He was graduated in veterinary medicine and wished to set up a clinic. Although PCA and Land Bank members for many years, this clinic could not be financed by the Land Bank or PCA because 51 percent of his business was not going to be done on his own livestock. Consequently, this financing went to other lenders in the area and created some hardship for our client. Our county was without veterinary service until this clinic was established."

The cooperative eligibility to lower the farm members eligibility requirement for the Bank of Coops financing to 60 percent of the voting membership or such higher percentage as the District Board may establish met with favor with the groups that I represent. It is my feeling that 60 percent ag membership in the coops as they are run today is an adequate number of voting members to protect agricultural interests.

The section of the Farm Credit Act Amendments of 1979 which would allow the Land Bank to make loans in excess of 85 percent of the appraised value of the real estate security when a guarantee is provided by a governmental unit involved would assist the Land Banks in their efforts in financing young farmers entering the farming business. It may at some later date be able to be used in case of drought or other disastrous crises. We do not feel that the Land Bank system or the Production Credit Association should be in the disaster financing business unless there is repayment ability.

Both the Land Bank Board of Directors and the PCA Board of Directors and their members felt that the authorization of the Bank of Coops to finance agriculture exports transactions and U.S. cooperative is a primary benefit to all of agriculture. Ten to 15 percent of our grain products moving through this type of channel would greatly enhance our ability to have a steady market overseas.

As we see it, the balance of the bill would make the Farm Credit System run more efficiently and effectively as a financial institution. We support these issues and think that it is necessary for our cooperative to be run in this manner as any business must survive these days. We ask your consideration of the proposals in this written testimony and your support for the passage of the Farm Credit Act Amendment of 1979.

Mr. MARLENEE. Next we will have Mr. Lawrence Peterson, from Almira, Wash.

STATEMENT OF LAWRENCE E. PETERSON, FARM CREDIT BANKS OF SPOKANE

Mr. PETERSON. Thank you, Congressman Marlenee.

I appreciate the privilege of being able to appear here today and testify. I am going to just briefly cover my prepared statement.

My name is Lawrence Peterson. I am a wheat farmer from Almira, Wash. I have farmed since 1935. I am a director, also, of the Federal Land Bank Association of Spokane. I farm with my brother and we farm 2,800 acres of dryland wheat and the way the weather conditions have been the past 4 years I can truly say it is a dryland wheat farm.

The three areas that I would like to cover, just briefly, there is more in my statement, but the three areas I would like to cover would be farm-related business lending.

We, of course, do have authorization to participate some in business lending, but I think it is extremely narrow, the scope in which we can participate under the present Farm Credit Act of 1971. Our association has not, to our knowledge, and the manager's knowledge, have really and truly made any business-related lending. We would like to see this expanded a little bit, because, for instance, in the operations out in our dryland wheat areas we don't, aren't able now to get very good part-time help and we have to kind of rely on permanent help and we have a lot of time in the winter and different times of the year that we are not able to use this help to full efficiency, so if we could expand our operations a little bit, have a small part-time business and use this help I think it would help us quite a bit, such as a small fertilizer business on the side. There are good many farmers that are kind of inventive in building farm machinery and if we could go into those types of things, so I think this type of thing would really be an improvement in the act if we could change that.

As far as the 85 percent law, our association sees that there is not much need to really change it. We do have authority at this time to make 85-percent loans, but to our knowledge we have made very few loans that have been at the 85-percent level. There is no advantage, I don't see, to anybody, even if you guarantee the loan, there isn't any advantage to loaning a man 85 to 100 percent if there is no ability to repay it. You're just taking advantage of him. So, this may be, other areas of the country may help to change for this law, but I see where it wouldn't help our association.

The third thing that I wanted to talk about a little bit is the co-operative eligibility law. I speak from this point of it as, the past 15 years I have served as a director for a rural electric co-op, and at the present time I also represent the State of Washington as a director on the Board of National Rural Electric Association in Washington, D.C. I serve as the chairman of the government relations department of this organization. We represent some 1,000 co-ops, rural electric co-ops in the United States.

While this isn't particular affecting the co-ops in the State of Washington, I know that throughout the rest of the United States it is of concern that we should try and lower the eligibility from which it now, at this time, is 70 percent, lower it to 60 percent would help a lot.

The people are moving out into the country, on the edges, where rural electric serves and they are not farmers, so consequently a good many of these rural electrics will not be eligible for bank of cooperative financing.

For instance, I quote the following examples, here from this district. There are approximately 114 rural electric and rural telephone cooperatives in the 5 States, comprising the 12th district. There are presently about 68 of them that are eligible for this financing. But, if the amendment was adopted, lowering it to 60 percent, there would be about 85 of them that would be eligible. If you have any knowledge of the rural electric systems or rural electric utility you can see that they soak up money just like a sponge soaks up water.

Now, while these remarks here are concerned mostly with the rural electrics, I know there are many other co-ops in the same position that we find ourselves with the rural electrics.

I am a firm believer in the Farm Credit System and I certainly appreciate your subcommittee examining all the proposals that are being proposed. On the whole, I believe that most of the proposed amendments are really constructive.

It's been real good for the system, I believe, since it was organized in 1917, that we have been able to come into the system and make changes in it and keep it current with the times and improve the system. I really believe that the boards who have served on this over all these years have certainly done a fine job. I know I really think the world of the system and I appreciate the opportunity of presenting this testimony and I thank you.

MR. MARLENEE. Thank you, Mr. Peterson.

I surely concur that boards of directors and the people that have served on those local boards out there have done a fine job in our system. Your full statement will be placed in the record.

[The prepared statement of Mr. Peterson follows:]

PREPARED STATEMENT OF LAWRENCE E. PETERSON, WHEAT FARMER, DIRECTOR OF THE FEDERAL LAND BANK ASSOCIATION ON BEHALF OF THE FARM CREDIT BANKS OF SPOKANE

I want to thank the Committee for the opportunity to appear today as a farmer and director of the Spokane Federal Land Bank Association. My name is Lawrence E. Peterson. My brother and I operate a 2,800-acre dryland wheat farm of which we own about two-thirds—the balance is leased land. We also have a few sheep.

American agriculture is ever thankful to the Congress of 1916-17 which created the Farm Credit System. It is one of two acts passed by Congress which have contributed to the ability of the American farmer to provide the tremendous amounts of food and fiber which he does with an ever dwindling supply of labor. The other act which has improved his quality of life and provides the energy for his work is the Rural Electrification Act of 1935.

I would like to point out the fact that the Federal Land Bank System is entirely owned by its borrowers. Stock purchases at the time of securing a loan by borrowers presently helps fund the FLB System. In this way, member-borrowers were able to retire the U.S. Government capital investment. The member boards which govern the Land Bank Association—being borrowers themselves—are therefore much more aware of the problems and needs which are faced by the perspective borrower.

American agriculture presently needs a vast supply of dependable credit without which it could not operate. As you know the Farm Credit System does not loan Government money but secures its capital from the investors bond market. While there are many amendments being proposed to the Farm Credit Act of 1971 here today, they do not basically alter the act, but are improvements

which will make the operations of the Farm Credit System more efficient and better able to meet the needs of its members.

I will speak to three of the major proposals or amendments to the Farm Credit Act of 1971.

1. FARM-RELATED BUSINESS LENDING

The initial farm related business authorization of the Farm Credit Act of 1971 has proved to be exceedingly narrow in scope. The Association I represent has not found a single opportunity to consider a farm-related business since the authority was granted in 1971. I would encourage the Farm Credit Act of 1971 be amended to greatly broaden the authority to loan on farm-related business. I would visualize this expanded authority to include basic processing and marketing facilities related to a farmer's operation. I have complete faith in the judgment of the Twelfth District Board of Directors to wisely administer a very broad authority for farm-related business loans.

2. EIGHTY-FIVE PERCENT LENDING LIMITATION

It is my considered opinion that such an expanded authorization based on a loan guarantee by FmHA or SBA would not result in any beneficial service to agriculture. Even with our present 85 percent authority we seldom approach the 85-percent maximum due primarily to lack of repayment ability. Since 1971, loans in the Association I represent, have been limited much more by repayment ability than security offered. To extend credit to a borrower that has no reasonable basis of repayment serves no useful purpose to anyone irregardless of any loan guarantee.

3. COOPERATIVE ELIGIBILITY

This amendment would lower the farmer-member eligibility requirements of the Bank of Cooperatives financing to 60 percent of voting members or such higher percentage as district boards may establish.

I have served for 15 years as a director of the Rural Electric Coop and am also, at the present time, representing the Rural Electric Cooperatives of Washington State as a director on the Board of the National Rural Electric Association in Washington, D.C.

Due to the continuing growth of rural areas in the United States and the shift from farm to an urban society, many Rural Electric Cooperatives could find themselves in the position of not being able to meet the requirements of the Bank of Cooperatives in regard to membership eligibility which, under the present law, requires that 70 percent of the voting members be farmers in order for the Cooperative to be eligible for Bank for Cooperatives financing.

The proposed amendment dropping the eligibility to 60 percent would help this situation considerably. As an example, I quote the following statistics which are approximate. There are 114 Rural Electric and Rural Telephone Cooperatives in the five states comprising the Twelfth District of the Farm Credit System. Presently, 68 are eligible for financing. With the adoption of this amendment approximately 85 would be eligible.

While my remarks here are concerned with Rural Electric Cooperatives mainly, I am sure that other cooperative businesses could conceivably be in the same situation.

I am a firm believer in the Farm Credit System and I appreciate your Committee examining all the proposals for change. On the whole I believe most of proposed amendments will be constructive. I appreciate the opportunity for presenting this testimony.

Mr. MARLENEE. Dr. Karl Kottman, executive secretary of the Washington State Council of Farmer Cooperatives, Olympia, Wash.

STATEMENT OF DR. KARL A. KOTTMAN, EXECUTIVE SECRETARY, WASHINGTON STATE COUNCIL OF FARMER COOPERATIVES

Dr. KOTTMAN. Thank you, Congressman Marlenee and Chairman Jones.

My name is Karl A. Kottman and I am speaking as executive secretary of the Washington State Council of Farmer Cooperatives. Our

organization is based in the State capital in Olympia, Wash. We are a dues-supported trade association of nearly all of the 130 agricultural cooperatives in this State. These cooperatives represent well over 100,000 Washington cooperative memberships. Our member firms are the leading marketers of Washington agricultural products, notably grains and tree fruits. We have other firms that are leading suppliers of fuel, fertilizer, and hardware for agriculture. Still others supply credit, and many are engaged in food processing.

We have broad representation of the kinds of those business enterprises in which farmers do business on a patronage basis and of which farmers exercise democratic control.

We are proud of the grassroots nature of the cooperative form of business and that our association represents an economic interest that is identical with those of the producer members whose firms make up our association.

H.R. 4783, the Farm Credit Act amendments of 1979, involves specific provisions which our association supports as beneficial to agriculture. I have dealt with these in the written statement that I have given you.

Many of the things that I want to talk about have been touched upon already, and let me just highlight the three main topics that I want to draw your attention to this morning.

The first is cooperative eligibility.

As we know, there is a reverse flow of population from urban to rural areas, throughout the country. This is very true in Washington and particularly in the western part of the State. It is important for cooperatives, especially farm supply cooperatives that have been organized by farmers, in these areas, to keep control of their supply companies. At the same time they must remain viable commercial institutions and so must admit nonfarmers as patrons or, at least, as customers and possibly as patrons of their firms.

I would like to defer a more detailed discussion of this to my colleague, Dick Wilcox, of the Oregon Agricultural Cooperative Council, who will speak later of his experience at Gresham Cooperative in Oregon.

I would, now, simply to say that there are nine cooperatives in western Washington that are in a very similar situation as the one he will describe in Gresham, Oreg. These are all companies, founded 50 years ago, by farmers who now find themselves having to take on increasing amounts of nonagricultural business and find it necessary, nonetheless, to stay eligible for membership in the banks for cooperatives. The cooperative eligibility change would be a great help to these nine companies, in particular.

Let me touch also on export financing.

We had the discussion by Mr. Watkins and Mr. Pennell of the experience of North Pacific Grain Growers. I would point out to you that there are a number of companies in this State, for example the Wenatchee-Okanogan Cooperative Federation, Snokist Growers, Skookum, Inc., all of which export apples and apple products. The exporting, foreign trade in apples is a very competitive business and I want to assure you that the kinds of difficulties that Mr. Pennell described in the financing of a foreign marketing of wheat, are also

experienced in the foreign marketing of apples and that they can no less afford the inefficiencies that he described.

Finally, let me just indicate how we feel about the incorporation of system service entities.

Cooperatives need the training, education, and information programs that have been carried on in the past by the Farm Credit Administration and the various Farm Credit Districts. Although expert farm managers, cooperative directors use the programs of larger cooperatives entities and trade and educational associations, like our own, to help them extend their talents into the off-farm business world. Education programs support, do not hinder, the democratic nature of cooperative organization wherein directors are always drawn from active patrons. We would respectfully encourage Congress to empower the Farm Credit Administration to incorporate such service entities as are necessary to foster education and encourage the quality of such training programs.

The Washington State Council of Farmer Cooperatives is very supportive of this measure, for these and other reasons. We encourage your early and favorable consideration of the measure. We are very grateful for the opportunity you have given us to appear before you and I would be very happy to answer any questions, should you have some.

Thank you very much.

MR. MARLENEE. Thank you, Dr. Kottman. Your full statement will be placed in the record.

[The prepared statement of Dr. Kottman follows:]

PREPARED STATEMENT OF KARL A. KOTTMAN, EXECUTIVE SECRETARY, WASHINGTON STATE COUNCIL OF FARMER COOPERATIVES

Mr. Chairman and members of the subcommittee, my name is Karl A. Kottman. I am speaking as Executive Secretary of the Washington State Council of Farmer Cooperatives based in Olympia, Washington. We are a dues supported trade association of nearly all of the 130 agricultural cooperatives in Washington. These cooperatives represent well over 100,000 Washington memberships. Our member cooperatives are the leading marketers of Washington agricultural products, notably grains and tree fruits. Other member firms are leading suppliers of fuel, fertilizer, and hardware for agriculture. Still others supply farm credit. Many are engaged in food processing. We have a broad representation of the kinds of those business enterprises in which farmers do business on a patronage basis and of which farmers exercise democratic control. We are proud of the grass roots nature of the cooperative form of business and that our association represents an economic interest that is identical with those of the producer members whose firms make it up. H.R. 4782, the Farm Credit Act Amendments of 1979, involves specific provisions which our association supports as beneficial to agriculture. I will deal with each of these in turn.

COOPERATIVE ELIGIBILITY

A recent study commissioned by the Rural Sociological Society "Rural USA: Persistence and Change," Thomas P. Ford, ed., Ames: Iowa State University Press, 1979, documents the reverse flow of population from urban to rural areas. Farmer control of off-farm business enterprise is necessary to maintain agriculture's traditional economic independence. This independence contrasts with the economic position of residents who choose rural life more for esthetic, health, and nonagricultural motives. Many cooperatives originally established by farmers now also welcome other rural residents as patrons. The reduction of the 80-percent farmer member limit to 60 percent will enable this trend to

continue peacefully without loss of traditional farmer control of cooperatives. This is because the usefulness of cooperatives to independent farmers also depends on farmer control of necessary sources of credit. House Rule 4782 takes the new reality of rural life into account without compromise to long established and valuable principles of economic independence for agriculture.

EIGHTY-FIVE-PERCENT LENDING LIMIT-FEDERAL LAND BANKS

This provision also brings the Farm Credit System into line with rural development philosophies represented by the Farmers Home Administration. Just as the amendment recognizes the influence of non-farm rural residents, so it should make rural development programs useful for farmers as well.

EXPORT FINANCING

Many of our members cooperatives have associated to market wheat and apples abroad. Overseas marketing is a positive contribution to our national economy. This activity is basic to farm profitability. Cooperation serves farmers not simply as a social movement but as an instrument of efficiency. You have testimony about the anticipated benefits from authorization of Banks for Cooperatives to finance agricultural transport transactions in which a U.S. cooperative is a primary beneficiary. I want to endorse that testimony and point out that the export of grains, tree fruits, and processed farm produce is vitally important for successful farming in Washington. Wenatchee-Okanogan Cooperative Federation, Snokist Growers, Skookum, Inc. and other cooperatives exporting apples and apple products will benefit from the same efficiencies anticipated by cooperative grain marketers from the Farm Credit Act Amendments of 1970.

INCORPORATION OF SYSTEM SERVICE ENTITIES

Cooperatives need the training, education and information programs of the Farm Credit Administration and the Farm Credit Districts. Although expert farm managers, cooperative directors use the programs of larger cooperatives and trade and educational associations to help them extend their talents into the off-farm business world. Education programs support the democratic nature of cooperative organization wherein directors are always drawn from active patrons. We encourage Congress to empower the Farm Credit Administration to incorporate such service entities as are necessary to foster education and encourage the quality of such programs.

The Washington State Council of Farmer Cooperatives is supportive of House Rule 4782 for these reasons. We encourage the early and favorable consideration by Congress of this measure. The Council is grateful for the opportunity to have appeared before you and I would be pleased to respond to any questions you may have. Thank you.

Mr. MARLENEE. Mr. Dan Black, Bean Growers Warehouse Co., Twin Falls, Idaho, welcome to the subcommittee.

STATEMENT OF DANIEL J. BLACK, BEAN GROWERS WAREHOUSE CO.

Mr. BLACK. Congressman Marlenee, Mr. Chairman, members of the subcommittee. I appreciate the opportunity to be here today.

I am Dan Black. I am general manager of Bean Growers Warehouse Association in southern Idaho. We have five warehouses, primarily involved in the receiving, processing and marketing of dry edible beans. We also have six receiving stations involved in receiving and shipping of wheat. We handle between 300,000 and 400,000 hundred-weight of dry edible beans, 1½ million bushels of wheat.

Our primary concern is in the marketing and exporting of dry edible beans. We market approximately 40 percent to 50 percent of all

beans produced in Idaho into export channels. With this large volume of export business we are not capable of doing any of the business on a direct basis. We, therefore, have to go through three to four major exporters in the United States. With the amount of volume that is placed in the hands of these exporters and conglomerants, they have a great deal of influence, both on export and domestic markets.

We are very concerned about the trend that we have seen in the last 3 or 4 years of the co-op farmer leaving the cooperative system and going into business and private industry because of their ability to perform services that we cannot. We don't feel that there has ever been a time in the history of the farmer that he has needed our support more than he does at the present time. We are continuously getting requests from foreign governments and from countries to deal directly with them on an export basis, at the grass roots level. They also are concerned about going through the large conglomerate and export companies.

Just in the last 30 days we have had representatives through the Midwest and into southern Idaho, both from the CONASUPÓ government in Mexico and INESPRE' in Santo Domingo, looking at the crops, seeing how they are harvested and expressing to us the fact that they would like to deal with us on a direct basis. At the present time we are not qualified to deal in any exporting on a direct basis with any country, because of the lack of financing and expertise.

Idaho is also the largest producer in the United States of pink beans. The biggest part of the pink beans produced in Idaho are shipped to Puerto Rico. To get into Puerto Rico with pink beans we have to rely on three exporting companies, basically, in California. They have also expressed the fact that they would like to do business with agriculture on a direct basis.

If we somehow could bypass the exporting companies we could see from \$1 to \$2 per hundredweight coming back into the marketplace, being placed back to the grower rather than to big business.

I also have been appointed by the industry to serve on the Idaho Bean Commission, which is a quasi form of government. I have been appointed chairman of that commission this year. We have a compulsory checkoff system in Idaho, of 6 cents per hundredweight, which is taken from both grower and producer, used primarily for the promotion and consumption of dry edible beans. At the present time we have a very good relationship going with Brazil. They are the largest producer in the world of black beans. They have a seed problem, their seed is full of disease and they are having problems producing crops because of that. Idaho is noted greatly for their seed production and the outstanding quality they produce. It would make me feel rather sad to think that with the grower checkoff system, paying the bills and with the commission doing the work for the promotion of sales direct into the Brazilian Government that we would have to give some exporting company \$1 to \$2 per hundredweight that should go into the grower's pocket.

In summing it up, I guess what we are actually doing is we are crying out to you for help and we think the passage of this new House bill is the help that we are seeking. It will untie our hands and let us

become a vocal voice and a marketer for the growers of the United States and make us very competitive in the marketplace.

Thank you for your time.

Mr. MARLENEE. Thank you, Mr. Black. Your prepared statement will be placed in the record.

[The prepared statement of Mr. Black follows:]

PREPARED STATEMENT OF DANIEL J. BLACK, SPOKANE BANK FOR COOPERATIVES AND BEAN GROWERS WAREHOUSE ASSOCIATION, INC.

Mr. Chairman and members of the Subcommittee, I am Daniel J. Black, General Manager of Bean Growers Warehouse Association, Inc., a cooperative established in 1922 and located in southern Idaho. The Farm Credit System provides approximately \$50 billion or roughly one-third of the nation's total agricultural credit. I appreciate this opportunity to present the views of the Spokane Bank for Cooperatives and Bean Growers Warehouse Association, Inc., concerning H.R. 4782, the Farm Credit Act Amendment of 1979.

Bean Growers Warehouse Association is primarily involved in the marketing of dry edible beans. Due to the fact that 40 to 50 percent of Idaho beans are exported each year, our cooperative can deal only with privately owner organizations in export marketing. This puts us in a precarious position of being unable to participate in export ventures unless we deal with private companies. This fact, in itself, can be detrimental to the farmers, because it gives them too much control over both foreign and domestic markets.

We have been able to see a trend in the past four or five years, regarding the cooperative attitude of farmers, insomuch that they are drifting away from the cooperative system to privately owned enterprises because of their ability to perform services we cannot. If we intend to bring any stability into the market place or give the grower any protection in the marketing of his commodity, we are going to have to have the liberties and abilities to become involved in export channels. To become involved, we need the support and assistance of the Banks for Cooperatives to handle the financing and related service functions.

Instance after instance, we hear of foreign countries and buyers who wish to deal directly with American farm cooperatives. Buyers from Africa, Europe, South America, Australia, and Puerto Rico have recently inquired about the purchase of all varieties of dry edible beans. Also, representatives from (ONASUPO and INESPRE) have been in southern Idaho during the past thirty days wanting to buy direct from local dealers. There is no local organization capable of selling direct, thus the business will probably have to go through a large exporting company.

Bean Growers Warehouse Association has the opportunity, at the present time, to export beans directly to a firm situated in Sydney Australia. However, we cannot put the business together unless we use an exported who has access to forwarding agents. Our association has recently sold beans to a firm in France. Ultimately, the beans will be exported to Argentina. We have had to rely on second-hand outside sources to guide us in this endeavor. However, due to the fact that the Bank for Cooperatives cannot handle the letter of credit or help us with the documentation, we may lose this opportunity. If the bank had the authority to deal directly with the French bank and explain the necessary steps involved, we could proceed with very little difficulty.

Idaho is the largest producer of pink beans in the United States and a large percentage of these beans are exported to Puerto Rico. Algeria is the largest buyer of U.S. grown great northern beans in the world and is now requesting bids to import in 7,000 metric ton lots. Venezuela and Santa Domingo will also be large importers of several varieties of beans this year. The largest European canner is located in France; they import 14,000 metric tons of beans each year from the United States. They are currently buying from a privately owned organization in the southern United States because they have the ability to purchase beans from all over the country. They also have the experienced personnel and financing to meet the demands of this canner.

The Idaho Bean Commission has been working with representatives from Brazil on the purchase of Black bean seed. Southern Idaho has an excellent reputation for the quality of bean seed we produce. The outlook for the future is bright for the export of this seed. If this business does materialize, we would like to be able to export direct instead of having to use an outside exporter.

If the private export brokers were not involved so often in these ventures, the return to the grower would increase from one to two dollars per hundred weight. Freight forwarders would still be necessary, but the cost is minimal for the services they perform. For approximately four cents per hundred weight, these forwarders handle the transportation, dock receipts and other necessary documentation to get the commodity to its destination.

In each of the afore-mentioned instances, cooperatives could be leaders in export ventures. We need the support and assistance the Bank for Cooperatives would gain from House Resolution 4782, the Farm Credit Act Amendment for 1979, to become leaders and help the American farmer. Bean Growers Warehouse Association is grateful for the opportunity to express its view before this Subcommittee. I would be pleased to respond to any questions.

Mr. MARLENEE. Mr. Chairman, I am going to turn this meeting back over to you, I think this concludes the first portion of the testimony and, now, we will have the questioning.

Mr. JONES of Tennessee. Thank you, Mr. Marlenee.

Is there anyone else in the audience who wants to make a statement at this time, before we call the witnesses back to the front?

There's a gentleman in the back row.

Are you on the agenda for any time today?

Mr. TATE. No.

Mr. JONES of Tennessee. Yes; we'll need your name, address, profession, so forth for the record.

STATEMENT OF GORDON TATE, IDAHO STATE GRANGE

Mr. TATE. I am Gordon Tate, master of the Idaho State Grange. Our mailing address is Box 367, Meridian, Idaho.

Mr. JONES of Tennessee. Mr. Tate, we are delighted to have you, and you may proceed.

Mr. TATE. We have previously submitted written testimony regarding the FCA-proposed changes in legislation. I would just like to make a few brief comments.

We realize that expansion is needed in the field of farm co-op export financing, probably greater than any other field at the present time. We would hope that somehow we would be able to avoid excessive investment in foreign institutions in the process of marketing of grain or other crops, in these countries.

We are opposed to the sale of insurance by FCA organizations, other than credit life. We believe that adequate insurance is available by various cooperative or mutual insurance companies, and also from private sector. There is also, of course, Federal crop insurance available in most areas.

We realize that farm co-ops are becoming more urban as a sign of the times, and it will be necessary to lower the percentage requirement for farm membership in cooperatives. Possibly down to 51 percent. The crops must continue to grow in order to maintain their share of the business, just as the population and the business of our country expand; but as it does expand, also, the percentage of actual farmers in our country also declines.

Thank you for this opportunity.

Mr. JONES of Tennessee. Thank you, Mr. Tate.

Now, I'm going to ask all of you who have appeared as witnesses to occupy one of the front seats here as we have questions.

Mr. Marlenee, before I yield to any questions that you may want to ask, let me say that this testimony has been very, very good, and I want to say to the participants that the testimony has been brief, concise, and really to the point. I have heard little repetition this morning of any testimony that has been given to this subcommittee. I believe that all the testimony has unanimously supported H.R. 4782 in its entirety, with only a few exceptions, which we may talk about. But I must say that what we have heard here today has been pretty well along the line of the other testimony that we have had with regard to H.R. 4782, which we would expect, with some variations, which we will talk about.

One very interesting aspect has been introduced here that we have not had in other hearings, which we would expect, and that has been in the fishing industry, which I have been very much interested in since Mr. Gunnari and some of them came to Washington, a few months back, and we did get you some relief in that regard.

Now, Mr. Marlenee, I yield to you for any question that you want to ask.

Mr. MARLENEE. I don't know, Mr. Chairman, that I have specific questions for any specific board member. I do think the testimony raises some general questions. I, too, observed that the testimony was very good this morning, extremely well done, and very interesting.

The people from the fishing industry, I found quite interesting. Perhaps, I could start there, inasmuch as that is the area that I have no expertise in.

Chester Peterson talked about how they had expanded the harvest beyond the processing capacities by expanding the limit to 200 miles. Was that not correct? Then, of course, the chain competition brought out by the other gentleman from over there, Mr. Gunnari. I thought that those were two very good points.

What's the reseeded capacity of that 200-mile area? Are you looking toward a sustained harvest, renewable harvest in that area, Mr. Peterson?

Mr. JONES of Tennessee. Mr. Peterson, can you come to the mike?

Mr. PETERSON. I kind of lost your question.

Mr. MARLENEE. We were talking about the 200-mile limit and at the present time we had expanded, this expanded production or harvesting capacities beyond the processing capacity in these plants. I was wondering what the sustained yield looked like. Are you going to be able to continue a sustained yield from this 200-mile area?

Mr. PETERSON. I think we will be able to do that.

What is happening here, too, is that the fishing industry has expanded so much, since this 200-mile limit came in, that the shore facilities are not keeping up or have the facilities or the capabilities of taking care of some of these products that we have available in the 200-mile limit. I was thinking of whiting situation or hake, as it is known. We are placed directly in competition with foreign enterprises out there now, that what we are doing is, there is some joint venture going on and for shore facilities to compete with this is impossible. The way they are doing it, you are fishing and delivering directly to foreign mother ships.

Right at the present it is feasible, being there are no shore facilities whatsoever and consequently this is going on. Hopefully this will be changed in the near future.

Mr. MARLENEE. The reason I asked that question about the sustained yield, Mr. Peterson, was that I was looking at the possibilities of what you were doing for reseeding the area or if it was a natural reseeding process for your stock, naturally reseeds and you harvest again and again and again, or if there was some cooperative venture that would be doing this reseeding too, or just how that was handled?

Mr. PETERSON. We are not reseeding. As you say, we are having some controls such as tonnage, the amount of harvesting we can do. This is just a start right now. As far as what I can understand or see of it, we haven't gotten too much into that, but it looks like we are in that process now.

Mr. MARLENEE. Thank you, Mr. Peterson.

A WITNESS. May I elaborate on that a little bit?

Mr. MARLENEE. Yes.

Perhaps, Mr. Chairman, before this gentleman elaborates we should recognize our chairman here.

Mr. JONES of Tennessee. I think that's a good idea, Ron.

Since he's away from home everybody ought to know him. We are delighted, indeed, we are in Congressman Foley's home district, as we said earlier today, and we are so glad that he is able to join us at this time. He has been on another mission and, Tom, I would be interested in knowing how your mother is, too.

Mr. FOLEY. She is better, thank you, Ed. I apologize for the fact that I was unable to be here earlier.

Speaking for myself and the residents of Washington State's Fifth Congressional District, I want to thank you, Chairman Jones, and Mr. Marlenee for taking time away from your own constituents and districts to be here for this hearing so that you might listen to testimony regarding how these important bills affect our particular region of the country.

The Conservation and Credit Subcommittee, of which I am an ex officio rather than voting member, is one of the most vital components of the Committee on Agriculture because it deals with a wide range of issues of great importance to our Nation's farmers and, in this case, to its fishermen as well.

The Farm Credit System in its varied aspects has proven itself to be one of the most effective and valuable services to be developed in the United States in terms of providing needed resources to our Nation's farmers and to all those associated with agriculture.

It is my own view, Mr. Chairman, that we are entering a very difficult period in terms of the availability of farm credit. Given the current economic climate, the high demand among farmers and agribusiness alike for credit today is compounded by the extremely high interest rates that are now prevalent. Moreover, any system that has had the vitality and importance of the Farm Credit System needs to be reviewed from time to time. Under the circumstances, we will be paying a great deal of attention to the important recommendations being made with respect to this legislation in the coming months.

Mr. Chairman, I want to thank you and Mr. Marlenee once again for coming and to express my appreciation to all of the witnesses who are taking the time and interest to testify.

Mr. JONES of Tennessee. Thank you, Chairman Foley.

Folks, let me tell you something in all honesty.

The Agricultural Committee in Washington, D.C., on the House side, enjoys one of the finest gentlemen, that is this chairman, that we have in Washington in the House of Representatives. I have never worked with anyone that has been as enjoyable to work with as I have Tom Foley. He doesn't boss you enough, really, with some of the problems that we have. He just leaves it to you and lets you handle your programs as you should, but he's the fairest, gentlest, most decent man that I have ever served with in a position like we are having to do here.

I want to say this, Tom, that this has been some of the best testimony that we have had. Somebody put together a package here that has worked. None of it has been lengthy, very little of it has been repetitious and we are finishing ahead of time. That's unusual for us.

Mr. Marlenee, will you handle the question?

Mr. MARLENEE. Just a couple of more observations and, then, we'll take, we'll let Roy speak on that one issue.

The point made by Mr. Wisdom, I thought, was very good on local produce. The marketing locally of these products, I thought, was an excellent point. By getting into the cooperatives, having the products marketed locally benefits the consumer, benefits those local producers, eliminates the costs of transportation and I appreciated that piece of testimony very much.

I think on the export thing I would have one question and it raises a question that we should consider. Are we going to drain the well dry by going out and securing the finances needed to work in the export market? Are we going to take those away from our traditional purpose of financing the farm production and the farm processing that we want to do and working with the cooperatives, the co-op banks too, if we expand that far. I think that's a question we need to address. I'm not saying I am against it, but I think additional input from you people, to me anyway, to answer that question, I would appreciate that, and I believe the subcommittee would.

Just so we don't run the well dry, in this age of more and more demand for more and more credit and it takes a lot more credit to run these operations now, than it ever did before and go out on the market and somewhere there is a bottom to the well. I think we need to address that.

Roy, I believe, wanted to comment on the fishing industry, additionally.

Mr. GUNNARI. Being repetitious, for Mr. Foley's benefit, our secretary of commerce has appointed me as a voting member of the Pacific Fisheries Management Council and I have direct input into this resource we have up to the 200-mile limit.

You asked if it's a sustainable yield, there is no other reason that those Russians have been coming back year after year after year and taking their toll on our fish. We have finally, the management council has set a tonnage which we figure is a sustainable optimum yield that

can be taken from that ocean. As long as our vessels are taking it they can't take the tonnage. In other words, the more we could get in there to take that product the less the Russians can take.

We have one drawback. We have no way of processing it. We have vessels here, because of PCA and other financing ways that are capable of catching them and they have showed that they will out do those Russians, because one or two 86-foot boats this year could plug up one of those processing ships that were in the joint venture. We gave five permits to joint ventures to come in and take the product and process it, because our land bases didn't have processing facilities.

This is why, I think, if we pass this legislation that we have before you, I believe that it's going to help us in this very end with individual processors as well as it will help the Fisheries Management Council gain its objective to utilize to the fullest extent our resources.

Thank you.

Mr. MARLENEE. Thank you, Mr. Gunnari.

I think Eugene Davis wanted to comment on the draining of the well dry.

Mr. DAVIS. Yes, sir, I would be happy to comment on that.

I think that we in Farm Credit have a tremendous amount of confidence in our fiscal agency people. I agree that there is, and it's a well put question, but it's also something that we have considered and mulled over in the formulation of the package, as such.

I think in my mind the safeguard there preventing this happening would be the fact that we've got our finger on the control and the outflow of this money. When I say we, we in Farm Credit, directors, directors in the field, our district directors, our Federal Farm Credit Board.

When we endorse this policy, and again face the danger or the possibility of the danger that you suggest, I say that we have all the confidence in the world of being able to monitor and handle that situation without any problem of financing the older line, forms of credit that we have been engaged in previously.

Howard Wuertz may have something on this.

Mr. MARLENEE. Thank you, Mr. Davis.

Mr. WUERTZ. If I may, and thank you.

Congressman Marlenee and members of the subcommittee, Congressman Foley, we are glad you are here.

I think in regard to the export financing, in my mind it's a no possibility whatsoever of so-called running the well dry, because the commodities that are presently handled by cooperative export companies only amount to about 7 percent of the export commodities that are now handled in channels of world trade. The banks for cooperatives would like to provide some of the financing for those cooperatives that are presently exporting commodities in world trade and at no time will the Farm Credit System be allowed to export commodities of companies other than cooperatives. I think that that, in itself, is a safeguard, even though we hope that there be additional cooperatives formed, as you heard here, the bean people and the wheat people and other that would like very much to have that opportunity.

I still see no substantial drain on funds, but merely fulfilling the same kind of services to people in export markets that the Farm

Credit System has been so able and capable of doing here in this country for cooperatives.

That being, I think, an extra good safeguard for the system.

Mr. MARLENEE. Thank you, Mr. Wuertz.

Yes, sir.

Mr. PENNELL. Rich Pennell from North Pacific Grain Growers.

I think I should respond to a part of that, because when I told you a cargo of wheat was worth \$2.9 it scared you quite a bit, but if you were a rancher in Montana you know that you can never get as much money from a banker as you want and you need.

So, as far as the well dry theory is concerned I would like to just add one other factor.

All we are really talking about is risk management. You've got to rely on the loan officer, so to speak, to make sure that he takes care of that. He's going to manage the risk. The more information he has the better job he can do. Most of the reasons that we find, provincial or local bankers unwilling to get involved in export financing is because of uncertainties. If you provide us with the tools with which we can evaluate credit risks overseas and better, you know, convey the real nature of the transaction, the kind of people we are dealing with and what those exposures are, I am sure you can rely on the people who are administering the program to make sure that they handle that responsibility properly.

Thank you.

Mr. MARLENEE. Thank you, Mr. Pennell.

No further questions, Mr. Chairman.

Mr. JONES of Tennessee. Thank you, Mr. Marlenee.

I have two or three that I want to ask.

Mr. ENSLEY, I have a question or two that I wanted to propound to you.

You said that FCA has done a good job, but we cannot sit on our laurels. I think that's the first time that I have heard that in one of these hearings, but I fully and thoroughly agree with you, it's a good statement and maybe we have, at times, been sitting on our laurels.

Now, you elaborated on the fact that we needed to reduce the percentage of membership eligibility, because of the urban sprawl. That's what we are hearing most everywhere that we go today, yet we are hearing some do object to that, and you elaborate on export financing which you support.

The thing that I want you to comment on for the benefit of this subcommittee is the subject of expanded authority of the PCA's. You alluded to that and if you could would you expand on what you really mean about additional authorities to the PCA's?

Mr. ENSLEY. I think that's been pretty well covered in the examples this morning. I am thinking of the processing, storing, and that of fruit, again, as the requirements that we have now of the 51 percent involved in a farmer who decides to go into this type of business, but needs a few neighbors to help him out. So that, I think, has been pretty well covered, and I really don't have too much further to comment on it, except to support it as being a strengthening to our agricultural situation in the area.

I think back a few years, one of my first contacts in this, he built a storage for fruit on his own farm, his neighbors were helping him out.

Later on he built a CA storage and, then, the neighbors involved helped him create this and it has helped the whole community that was involved in it. My thought is, it helps the community and the ranchers that are so involved.

I'm not sure I got to your question or not.

Mr. JONES of Tennessee. Did he, in that case, build the storage with the support of the PCA's or some other way? Did he borrow the money from the PCA, in other words?

Mr. ENSLEY. In this particular case he was large enough that he could qualify for the 51 percent and did so. It did not have the dangers that some of these people ran into later on, and that is a big danger. You could qualify and next year you would not and lose your eligibility and, then, what would you do for the funds. That is a great danger as it presently is stated.

Mr. JONES of Tennessee. I think that carries through to some other businesses of farming, other than just this particular category that you're talking about.

Mr. ENSLEY. Oh, yes. This would be all inclusive. I just used that as one example.

Mr. JONES of Tennessee. Of the aquatic problem, you said we should give the same authority that others now have. Would you elaborate on that?

Mr. ENSLEY. I think if you study that strictly, it's a matter of technical language in the law itself. Many times they omitted the addition of aquatic farming in the original bill and what, I think, you will find if you study it closely, we are merely asking that that be included in the language to give the aquatic borrowers the same acquisition of funds as the general ranchers, farmers and ranchers. So it's merely kind of a technical change, which was probably overlooked. We were not in it at that time as we are now.

Mr. JONES of Tennessee. I am wondering if the present law, as is drawn, would take care of that situation, H.R. 4782?

Mr. ENSLEY. You are getting a little beyond my scope of the law, but I believe we do need the additional language to give them an equal opportunity. I believe that is correct.

Mr. JONES of Tennessee. I think staff needs to make a note of that, that we need to look into that and see just where we stand.

I do want to ask Mr. Gunnari and also the Petersons about that, also.

Thank you for your comments; they were very helpful, Mr. Ensley.

Mr. Sanders of Emmett, Idaho, if you will take the mike and tell me, I think that I wrote this down right, you said that you wondered about the 85-percent limitation on farm loans. Would you elaborate?

Mr. SANDERS. Yes; my greatest concern, of course, I go back to this, you have to look at it more personally than anything else. I know that maybe this, this was introduced in help for the young farmer, and I cannot see, when you are talking about going beyond the 85 percent or even 100 percent, and with the interest rates that we are confronted with today and the economy it exists, I am just wondering if financing 100 percent is feasible for a man to turn around and accept his obligation and pay it back.

This is my only concern on that, because—there are other concerns that I can see in something like that, too. If we go beyond the 85 percent, lots of times there is an influence factor from people really

that maybe do have the powers of influence and can trip something that wouldn't be economically feasible, you know, because of having this beyond 85 percent.

My whole concern is that, let's not put the man into a position where he cannot pay it back, because we are all going to be in trouble.

Mr. JONES of Tennessee. In other words, your honest opinion is that with the present law is sufficient to cover Federal land bank appraisals?

Mr. SANDERS. As far as we are concerned in this district and I have to speak, of course, from this district, I think definitely that it is. I think there are many times when, at 85 percent, it really is sufficient, and I go back to so many of our records and it's very seldom that we even get into that category and we get in that category again because it is sound, if we go as far as 85 percent.

Mr. JONES of Tennessee. Yet I think we must admit that all of the investments that have been made in the last good many years, I'm looking here at an article that appeared in U.S. News & World Report on October 1, and, of course, everybody has been talking about gold and how it's been doing and how great it was if you had an investment in gold, but farmland, a \$10,000 purchase of typical farmland in 1969, today is valued at \$31,000, a 56-percent gain in the investment. This is the thing that strikes me as something we need to really take a serious look at.

What can you buy today in this country of ours more valuable than farmland?

Now, the reason I say this is, the Federal land bank and loan is not the only outfit, only corporation, lending agency, who makes loans to farm lenders today. The insurance companies have gotten back into it in a pretty big way in the last good many years. Even some banks are, but more insurance companies than anyone else. From my own observation, from where I sit, I notice that they are getting to be a little bit more liberal in their appraisal of farmland values than they were a few years back. This is something that strikes me as something we really need to address an issue to.

Mr. SANDERS. Of course, I appreciate that and I can see, I mean, this is more or less like betting on the come. I know that farmland has appreciated extensively in the last few years. Of course, through our crystal ball, who can tell where it is going from here. I see so many, many places today that are acquired and, really, they are acquired in maybe the sale of some property in another State or something like that, where in the way that we are looking at farm prices today on commodities on what we turn around and produce, there is no way in the world that I can see where that, the returns will ever retire that piece of property. Of course, this is a concern that I have, more than anything else. There is a lot of free money around and it's money that they have and yet in some respects we can't do it. There is no way in the world that I would say that, speaking personally, that the price that I can retire my land at or sell my land at, I can't see how the devil anybody could ever pay it back.

Mr. JONES of Tennessee. I agree with you 100 percent. What you are saying is, there is no way to farm it out of it?

Mr. SANDERS. That's right.

Mr. JONES of Tennessee. You are right. In fact, I doubt if you could even pay the interest on what you make out of it.

Mr. SANDERS. You see, that's quite an item. I mean, the interest on any of this stuff. That's the thing that has to be paid first.

Mr. JONES of Tennessee. That's right.

Well, thank you very much. I wanted to get you to elaborate a little bit more on that.

I have a couple of fishing questions here.

Mr. Niessner, you discussed PCA considerably and I want to ask you a question that's on my mind, the subcommittee's mind, and has come to our attention a great deal. It's not included in the Farm Credit Act proposal.

That is, as we get over the country and listen to a lot of the testimony we find in some regions that there is a demand placed by those people who have testified before us that they would like to see PCA expand their loan from a 7-year loan to more years of lending.

What's your opinion on that?

Mr. NIESSNER. I have some very strong feelings about this, Congressman Jones.

First of all in the 12th District, I don't believe we have any problems with expanding it beyond 7 years. In fact, we know for a fact that they are already making loans that exceed 7 years, through balloon payments and so forth.

But, we are very much concerned, as long as they don't get into the real estate end of it. If they keep it to large machinery, sprinkler systems, whatever they need to expand to in that area, but I think there would be a conflict if you would allow the PCA's to get into the real estate area.

Mr. JONES of Tennessee. You mean to tell me the PCA's are not in the real estate business in your territory?

Mr. NIESSNER. You know it and I know it that they are, but it's mostly in the second mortgage end of it. I am referring to the first mortgage end of real estate.

Mr. JONES of Tennessee. Thank you very much, I appreciate that.

I have to admit I have had a little confrontation with a few of the people on the Federal board about this problem, but I can't get their attention so far.

These fishing questions were very interesting to me and they are something that I know very little about, as Ron said he didn't either. I very well remember when the Weaver bill came up, when we had the hearings, and the serious demand of the people out here made for some relief and I am glad to hear today that some relief has been granted in that area.

Mr. MARLENEE. Mr. Chairman, may I make a comment?

Mr. JONES of Tennessee. Yes.

Mr. MARLENEE. You will recall in our hearings that it is very valuable that you people make your wishes known, but if you will recall the meetings, when we first started out on this, how people were scoffing at this particular concept.

Mr. JONES of Tennessee. That's what they called it, something about fishing, wasn't it?

But, really, the people who came to Washington really did a good job on testimony.

Now, I would like to ask you gentlemen in the fishing industry, what impact really, as far as credit goes, has the new 200-mile fishing limit had on the fishing industry here in the Pacific Northwest? I will leave it to any of you.

Mr. CALMAR PETERSON. I would like to say one thing about that.

The fishing industry is not just one thing, it has many different species, the same as you have many different crops that you farm. One of the species in particular is bottom fish. Now, with the 200-mile limit several of the boat owners have been inspired to build bigger boats to catch more product. What is happening, in effect, from a processing and marketing point of view is that in the bottom fish species we have been able to saturate our traditional market. The west coast of the United States, San Francisco, Los Angeles, Portland, Seattle, are large centers for consuming bottom fish. But with the additional increase of catch coming to the shoreline these fresh markets, these are fresh market centers, have been saturated with fresh product. Now, we need to expand our processing operations into freezing operations so that we can freeze and preserve and export that product overseas, to expand our market.

The 200-mile limit has given us the ability to have the access to the product over the foreign fleets, but we need to have expanded processing capability in order to reach world markets with the additional catch.

Mr. JONES of Tennessee. While you've got the mike let me ask you another question.

You said, I think you said this, that you need longer term financing for buildings and so forth, up to a 15-year term.

Mr. CALMAR PETERSON. The former speaker spoke on that and it seems to me that farmland is very much similar to a need for a dock-side place to land your product. You have all the boats out there in world catching product, but unless you've got a dock to bring that on-shore for processing you really don't have access to that product. I believe for docks and for buildings under which you can put in processing equipment, we need longer term financing to build those docks, which are very expensive, and those buildings.

Mr. JONES of Tennessee. You have been trading with PCA haven't you?

Mr. CALMAR PETERSON. We are very new to this.

Mr. JONES of Tennessee. I know you said you had been in the business for 2 years, but didn't you say you liked FCA and that you had been doing some business with them, farm credit?

Mr. CALMAR PETERSON. Yes.

Mr. JONES of Tennessee. Through the PCA's?

Mr. CALMAR PETERSON. My father has had some financing of his boat operation for that, but not for the plant.

Mr. JONES of Tennessee. What I would like to know, either from you, your father or Mr. Gunnari, either one.

H.R. 4782 would allow the land banks, the Federal Land Banks Association, which is one of the three banks, to make long-term loans for construction of docking and storage facilities. As far as I know,

land banks have not been involved at all in the fishing industry, but the PCA's have been making short term and intermediate term loans for a long time.

Mr. CALMAR PETERSON. To answer your question, we don't have access to that at this time, to my knowledge.

Mr. JONES of Tennessee. Mr. Gunnari, can you—now, I'm not through with my question though—but what I want to know is, do you think we should consider giving PCA's this long-term loan, but limit it only to the aquatic loan? Mr. Gunnari, you may have to answer that question, since you have been in it longer.

Mr. GUNNARI. Being a PCA director in an aquatic PCA, I would say that a 15-year term loan for fishing vessels is very adequate, but like it's been brought out, land financing, building financing I think still should be with the land bank.

But, Mr. Peterson mentioned machinery and equipment. That, again, comes under PCA. It would have to work hand in hand. The land bank wouldn't see it profitable to give money for land and buildings if they can't put equipment in it and they have to work hand in hand to see that the venture is profitable in all points and be able to pay off each end.

Mr. JONES of Tennessee. Let's see, what have you really told me? You've got me mixed up.

Mr. GUNNARI. I'm sorry I'm so confusing.

Mr. JONES of Tennessee. Let's go back and see.

As far as the lending of money for the boats that are concerned, the PCA's are great for 15 years, right?

Mr. GUNNARI. This is what I maintain; yes.

Mr. JONES of Tennessee. But as far as—and the machinery—as Mr. Peterson alluded to?

Mr. GUNNARI. That's right.

Mr. JONES of Tennessee. It would be included.

But, now, as far as the buildings go you would want that to be included under the Land Bank Association?

Mr. GUNNARI. This is the way the package reads, giving them the authority to go into aquatics and I believe it would be a very great help to the aquatic industry.

Mr. JONES of Tennessee. I believe the bill was written that way, is it not? Isn't that correct? So that would take care of the fishing industry in good style, I guess.

You have no problem, now, with PCA's as far as their lending ability to the fishing industries concern?

Mr. GUNNARI. We are monitoring that 15-year loan very carefully.

Mr. JONES of Tennessee. And it's doing a good job?

Mr. GUNNARI. It has done a good job. We are not abusing it. Mainly the ones that we have given out on that have been on brand new vessels that have a life expectancy beyond the 15 years and we monitor it closely.

Mr. JONES of Tennessee. I guess if you can get a 15-year loan for a fishing vessel you wouldn't have any objection to a farmer getting a 10-year loan for something he might buy?

Mr. GUNNARI. There would be a question. As you'll notice, I said the life of the equipment.

Now, with your combine or whatever it is, if it lasted 10 years, the life of the loan and I think this has a lot to do with how long a term loan should be.

Mr. JONES of Tennessee. Thank you, Mr. Gunnari.

Mr. Marlenee, do you have any more questions?

Mr. MARLENEE. No; I don't, Mr. Chairman.

Mr. JONES of Tennessee. I've got one more that I wanted to get into and I'm afraid, it's almost 12 o'clock and I like to quit on time and start on time, and that's this insurance field.

We have had some people who today who have opposed the insurance sales by the Farm Credit Administration, other than credit life. I wanted to hear from somebody in that regard.

Could anybody who opposed the FCA's selling insurance give us a quickie on that? I don't remember who the gentleman was—Mr. Tate.

Mr. Tate, would you want to come up for just a moment? We won't hold you to a long statement.

I might say we have had some on your side in other places too. That's the reason I want to hear from you.

Mr. TATE. Mr. Chairman, I realize this is a very controversial thing and we have discussed this with quite a number of people and I would say those that we have discussed it with, particularly those that are closely associated with the business, they feel that they probably should have this opportunity to offer more insurance, right on the spot, so to speak, so that they could facilitate these loans. However, we do feel that there are a great many mutual and cooperative insurance companies that are in this business, that is their business and we feel that it's just not proper to, for another agency to come in and get what amounts to, I guess I shouldn't say stranglehold, but anyway they have this opportunity to sell insurance, by the virtue of the fact that the man is there and needs insurance to complete his loan.

So that was our basis particularly, that we felt that—in most cases, there may be some limited areas, in remote areas, where this type of insurance is not available and as I said before, we wouldn't object really to the insurance that's necessary, credit life, to actually insure that particular loan.

I know that there have been some others that agreed with us on this, this morning.

Mr. JONES of Tennessee. How do you feel, let me ask you one other question. It's not really relevant to this point, but something that this subcommittee is interested in. How do you feel about the Federal crop insurance program?

Mr. TATE. Personally, you mean? Whether it should be expanded?

Mr. JONES of Tennessee. Yes, sir. The new proposal, H.R. 4119.

Mr. TATE. Yes; I think—we haven't studied it very thoroughly, but probably would be basic.

Mr. JONES of Tennessee. It would cover the major crops of the country, you know.

Mr. TATE. Yes.

Mr. JONES of Tennessee. Thank you very much, Mr. Tate.

Did you say, Mr. Wilson, Bob?

Mr. Wilson, do you want to elaborate for a moment?

Mr. WILSON. Yes.

Mr. JONES of Tennessee. I want to get to Mr. Black for just a minute, gentlemen, if you don't mind. I want to talk to him.

Mr. WILSON. Yes; I want to join Mr. Tate in expressing our opposition to the expansion into the insurance business. We think that there are plenty of services, now, that are able to supply the farmers. This would be a duplication and, as you will note, we submitted a suggested amendment to this bill which would prohibit them getting into, even continuing in the insurance business, except credit life insurance.

On the crop insurance bill, we opposed the crop insurance bill at the time, because we were fearful that this was going to replace the farm program. That we were going to have an insurance program where the farmers themselves would be paying for their own farm program and assuming all the risks in agriculture, and we opposed the part where declaring farming a disaster area and restricting benefits to them because of the expanded crop insurance.

Mr. JONES of Tennessee. But, you see, you've found out now that that's not the case in the Federal crop insurance bill. It's different than that. It will replace disaster, but we have been told that disaster is over with anyway, we're not going to have another disaster program.

Mr. WILSON. For farmers; but everybody else, I guess, will have disasters, except farmers.

Mr. JONES of Tennessee. Oh, of course, everybody else will.

Mr. MARLENEE. Mr. Chairman, if Mr. Wilson would just comment on a couple of things more.

You expressed concern about them offering casualty and property insurance, and I understand there are three programs, pilot programs, presently being operated.

I'm sorry, I missed your testimony. I stepped out for just a minute.

Mr. WILSON. Well, you know, we do have Federal legislation statute which has forced the banking industry to divest their insurance operations and the insurance operations from divesting their banking operations in the nonfarm credit field, the regular banks and insurance companies. We think this is good. We would like to see the Farm Credit Administration concentrate on credit. You have heard needs here today for programs for the fishing people, for the international trade, a lot of those things. We would like to see them concentrate on providing that and not worry about getting into a field where we already have adequate service and plenty of companies. We have more rural insurance companies and mutual companies, crop companies, than the farmer actually needs. There are a lot of them out there and we don't see a need for them to expand in this field.

Mr. MARLENEE. Thank you, Mr. Wilson.

Mr. JONES of Tennessee. Thank you very much. That's a real good statement.

Mr. Black, can I talk to you for just a moment? You really caused me to recognize the fact that Idaho does some things I wasn't aware of. I didn't realize that you export and market from 40 to 50 percent of all the dry beans that are exported in the country.

Mr. BLACK. We export approximately 40 percent of our Idaho crop of dry beans to foreign countries; basically, the pinks and pintoes go into the South American and Central American countries.

Mr. JONES of Tennessee. That pink bean, you alluded to Puerto Rico.

Mr. BLACK. Yes; they are very heavy users of the pink variety.

Mr. JONES of Tennessee. Do they grow it there?

Mr. BLACK. No.

Mr. JONES of Tennessee. They cannot grow it there, but they use it?

Mr. BLACK. Right.

Mr. JONES of Tennessee. You said that Brazil was the largest producer of black beans, but they have a seed problem?

Mr. BLACK. Their seed is terribly diseased so, therefore, they get no production from it any longer. Idaho has historically been known for seed production, from which we supply seed all over the United States, and to a lot of foreign countries.

Mr. JONES of Tennessee. Do you provide black bean seed to Brazil?

Mr. BLACK. No; we do not. This is a program on which we are working and hoping that we can develop through the Idaho Bean Commission.

Mr. JONES of Tennessee. I can understand what you are talking about. I have been to Brazil and I have seen the way they handle their soybean seed over there, and I can understand why they would have some real problems in the seeds that they would have to reproduce.

That ought to be a good market for you, because they are a very fast growing country. I was not aware of the fact that they bought that many black beans or produced that many black beans.

Mr. BLACK. It would be a tremendous market for Idaho, and the acreage that would be consumed by the beans being prepared for seed, would come off of the dry edible market into the seed channels, which would also strengthen the rest of the United States, as far as dry edible variety.

Mr. JONES of Tennessee. What you are saying is, if H.R. 4782 is made into law, that the dry bean industry can correct a lot of problems that they have, from a profitwise standpoint?

Mr. BLACK. Very definitely.

Mr. JONES of Tennessee. You could get into the marketing of this bean seed yourself?

Mr. BLACK. Yes. Go direct rather than through large exporting companies.

Mr. JONES of Tennessee. Very good. Thank you very much; I appreciate your statement.

Gentlemen, we will adjourn until 1:30.

[Whereupon, the subcommittee recessed at 12:08 p.m., to reconvene at 1:30 p.m.]

AFTERNOON SESSION

Mr. JONES of Tennessee. The Subcommittee on Conservation and Credit will come to order and we will begin the hearing.

This afternoon we are divided into two sections. The first section would be in relation to farm credit and the second section will relate to conservation.

The first witness is Mr. Robert Thompson, Diamond Fruit Growers, Hood River, Oreg.

**STATEMENT OF ROBERT M. THOMPSON, DIAMOND FRUIT
GROWERS, INC.**

Mr. THOMPSON. Mr. Chairman and members of the subcommittee, thank you for permitting me to have this time in front of your organization.

My name is Robert Thompson. I am the president of Diamond Fruit Growers, whose world headquarters is Hood River, Oreg. I am the senior management executive of this agricultural co-op which was established in 1913. The cooperative is composed of approximately 240 member fruit producers. It is a processing and marketing organization and handles production from central eastern Oregon, southwest Washington and southwestern Idaho.

The principal products handled by Diamond Fruit Growers are Bartlett pears, winter pears, several varieties of apples, cherries, and plums. We are the largest Anjou producing pear marketer in the world, and in addition to packing fresh produce, operate a major cannery for our membership.

Our tonnages exceed \$100,000 of processing product a year. Our sales are in excess of \$50 million.

Diamond Fruit Growers is an extensive exporter of fresh and processed products to many foreign markets. During this past year our fresh produce exports have been significant into the following locations:

Destination	Packed boxes		Total
	Apples	Pears	
Orient.....	173,470	48,080	222,550
Sweden.....	14,125	87,080	101,215
Canada.....	6,180	73,011	79,200
Germany.....		30,784	30,784
Venezuela.....	3,500	16,080	19,580
Norway.....	7,213	7,850	15,163
Mexico.....		12,500	12,500
Holland.....		12,400	12,400
Saudi Arabia.....	11,564		11,564
Brazil.....		7,500	7,500
Finland.....		6,000	6,000
Ireland.....		3,200	3,200
Ecuador.....	1,466		1,466
Egypt.....	800		800
Total.....	218,427	305,575	524,002

This is about 20 percent of our total fresh production.

The fruit industry is a representative portion of this country's agricultural production and one that is growing every year. Our latest projection of member production tonnage indicates an ever-expanding marketing responsibility. Our export function is a very important, profitable and attractive marketing part of our member service, which we plan to continue expanding in the future.

For a great number of years Diamond has utilized only the banks for cooperatives system and, more specifically, the Spokane Bank for Cooperatives for all of its short- and long-term financing. We have found this system to be very competitive with other lending institutions.

At the present time we have an equity of \$1.5 million in the Spokane Bank. We feel that with such a close relationship to one banking institution, and such a significant equity in the organization, Diamond Fruit Growers is extremely anxious that the bank for cooperatives expand its services to provide additional exporting support. At present, because of its limitations, we are required to use outside lending institutions for such things as letters of credit, receivable payment insurance and drafts.

The banks for cooperatives, Federal land banks and associations, Federal intermediate credit banks, and production credit associations are all a part of the Farm Credit System, of which I know you are aware, but they also provide approximately 65 percent of the borrowed funds used by farmer cooperatives.

Cooperative marketing associations, such as Diamond Fruit Growers, are competing with every other agricultural fruit handling organization in this country, and it seems inconsistent to us that the Farm Credit System, which is so widely used by cooperative organizations, in support of farmer activities should be unable to provide all of the services required by its borrowers.

So, on behalf of Diamond Fruit Growers and the considerable number of members who make up this organization, I strongly recommend that the legislation which has been introduced as the Farm Credit Act amendment of 1979 be favorably enacted upon at the earliest possible legislative opportunity.

In addition to this, Mr. Chairman, I would like to toss just a couple of personal observations out, which follow the discussions we had this morning.

There was discussion regarding the possibility of the well running dry. In the capacity that I operate, I have to be particularly careful and observant of money markets and how they respond. I really believe that the money markets are generally capable of expanding to meet the demand that exists for their product and perhaps maybe this morning we were discussing more who would do the lending rather than whether or not there was something to lend.

In addition, in respect to the assistance that I am referring to when I speak of financial services in exporting, I do not see these functions as capital intensive, but rather are services that co-op banks, based on their past performance, can undoubtedly furnish my firm at lower costs than we now must pay and probably in a more expeditious manner.

Thank you, gentlemen.

Mr. JONES of Tennessee. Thank you very much and we will no doubt question you a little later.

The next witness is Mr. Dixie Riddle, Inland Farmers, Spokane, Wash.

Mr. Riddle, we appreciate the fact that you have taken the time to be here and you may proceed.

STATEMENT OF DIXIE L. RIDDLE, INLAND FARMERS, INC.

Mr. RIDDLE. Thank you, Mr. Chairman and members of the subcommittee.

My name is Dixie Lee Riddle. I am a farmer in partnership with my brother. We farm 1,600 acres. Diversified; cattle, wheat, peas, barley and hay. I will speak from a farmer's standpoint. I am president of Inland Farmers, Inc., Spokane; chairman of the Advisory Committee, Spokane Bank for Cooperatives; a member of the board of directors for Cenex; and a farmer in the local area. I appreciate this opportunity to present the farmer's views concerning the H.R. 4782, the Farm Credit Act Amendments of 1979.

Inland Farmers is a local cooperative in Spokane servicing both agricultural members and nonagricultural members with supplies, primarily petroleum, fertilizer, feed and miscellaneous hardware items. Inland Farmers has assets in excess of \$3 million with sales volume of \$5 million and is predominantly agricultural. We have four thousand members; of that number, 1,500 are producer members or farmers. A lot of those are part-time farmers.

For Cenex, I represent four States: Washington, Oregon, Idaho, and Utah. Cenex is in 14 States, headquarters being in St. Paul.

With sales in excess of \$1 billion, assets over \$400 million and service of 450,000 farm families, Cenex is basic in manufacturing petroleum products with a wholly owned refinery at Laurel, Mont. This is part of our commitment to furnish farmers in the Northwest with their petroleum and fertilizer needs.

To keep our cooperatives financially sound and providing the services we need on the farm, we need to reduce the requirements that 80 percent of the members be farmers to 60 percent to keep us eligible to borrow from the bank for cooperatives.

There was a time when there were quite distinct urban and rural areas. This situation has materially changed, and on the fringes of urban areas and well into agricultural areas we find rural residents with very limited or no commercial farming interest. Companies, which at one time were organized entirely for farmers, find their customers are neighbors whose primary interest is to live in a rural area and not be farmers. The suburbs in different configurations also expand from the population centers and at times engulf what was formerly the agricultural territory of the farmer-organized and farmer-served cooperatives.

As urban and suburban areas have expanded, people moving to the country from town with little or no commercial farming interests, we find our local cooperatives effectively providing goods and services to these people as well as our farmer members. This nonproducer business covers part of the company's overhead and allows the cooperative to buy in larger lots to obtain better prices, both of which help reduce the cost of these goods to me. Therefore, companies like Inland Farmers welcome a limited amount of nonproducer business. Other cooperatives in the Northwest are in the same position as Inland Farmers are, serving a broader area than they have in the past. They are in a position to make services and products available to nonfarm cooperative members at a reasonable cost, so are benefiting a much larger segment of our population than just farmers.

This additional business makes our local cooperatives more efficient and effective than they otherwise might be.

This amendment will still insure the farmer's control of his cooperative as was the intent of the Farm Credit Act of 1971.

I feel very strongly about the benefit of the Farm Credit System to the profitability of my own farm. That is why I, along with other farmers, have substantial investments in our cooperatives and why I borrow from the Federal land banks and production credit associations. One of the important features of the Farm Credit System is the availability of funds at reasonable rates.

At our local cooperative, we have found the Spokane Bank for Cooperatives to be an excellent source with lower interest rates than we are able to get elsewhere. Regional cooperatives such as Cenex require large sums of money to finance inventories and accounts receivable; usually seasonal money. Term money is required to finance building projects and acquire basic inputs for our local cooperatives at reasonable costs. The bank for cooperatives provides the best source of borrowed capital available.

There are currently 81 classified as farm supply cooperatives in the Spokane Bank for Cooperatives system. From this group those associations that, if present population trends in rural areas continue, might have eligibility problems in the next decade. The bank's analysis shows 35 Cenex companies or 42 percent of the bank's present supply company borrowers are in this category. They further conclude that 11 will not have a problem, 8 are now marginal and 16 companies will not qualify at the end of 10 years. Interestingly, voting control is held by farmers in each of the companies. The lowest percentage of farmer voting members is 83 percent and 19 of the companies have 100 percent farmer voting requirements. The problem arises as stated above in member versus nonmember business. Nine of the companies have a member business percentage from 51 percent to 59 percent, 7 from 60 percent to 69 percent and the remaining 19 from 70 percent to 90 percent member business. In the same areas, there are three existing companies that have recently applied for financing but are ineligible because the 50 percent member business requirement cannot be met, but the need remains for farmers in the areas to have the service.

Alternate financing would be provided by conventional commercial banking sources at generally higher rates because of their broader services and usual limitations regarding term and facility financing which do not meet the needs of conventional term loan requirements.

The expertise provided by the Bank for Cooperatives is not available from any other source. The staff deals only with our kind of business and if we need assistance in evaluating capitalization alternatives, presentable analysis on proposed facilities, and or other proposals that might be peculiar to a cooperative, the bank staff is always ready to help us. We do not want to lose that source of advice and counsel.

As a farmer doing business with my local cooperatives, Inland Farmers and regional cooperatives (CENEX) who both borrow from the bank for cooperatives and both have ownership in this banking system, it is my money being used in facilities and products. My farmer's ownership in Inland Farmers is in excess of \$17,000. Inland Farmers has ownership in excess of \$65,000 in the bank for cooperatives.

I have three boys who are interested in farming. The Farm Credit System is important to our farm operation, and the amendments

proposed to the 1979 act will help make the system of more benefit to my boys and others who are interested in agriculture to come.

Mr. JONES of Tennessee. Thank you very much, Mr. Riddle, we appreciate the time that you have taken.

The next witness is Mr. Delbert Moore, a farmer from Colfax, Wash.

Mr. Moore, we are glad to have you. Appreciate your being here and you may proceed.

STATEMENT OF DELBERT MOORE, FARMER, WHITMAN COUNTY, WASH.

Mr. MOORE. Thank you, Chairman Jones and Congressman Marlenee.

This is a short text I have for you. For clarity and for continuity I would like to be able to go, basically, verbatim from my copy.

With me is Mr. Ed Hoffman of the Whitman County Growers, manager of the Whitman County Growers.

Mr. JONES of Tennessee. Mr. Hoffman, you are welcome and we are glad to have you too.

Mr. MOORE. My name is Delbert Moore. I farm and ranch in Whitman County, in the State of Washington and have done so for the past 30 years, operating approximately 2,700 acres, raising wheat, lentils, dry peas, barley and cattle.

I am a member of the LaCrosse Grain Growers, the Wheat Growers of Endicott, the Whitman County Growers and the Oakesdale Grain Growers, and I look to the Federal Land Bank, the PCA and indirectly to the Bank of Cooperatives for operating moneys.

I am delighted to supply testimony for your Subcommittee on Conservation and Credit, and I thank you for making yourselves available for this input. This procedure is indeed a strong arm of the American democratic process.

I have produced dry peas and lentils for the past 21 years and have worked actively in our Washington Association of Dry Pea & Lentil Producers, Inc., for the promotion of these commodities.

I am addressing the following thoughts to the amendments that provide for the export financing, overlapping into some of the others.

The proposed amendments have been a long time in coming, but implementation I sincerely hope is at our doorstep. The producers of dry peas and lentils have looked to this type of progressive action for correction of inherent inequities in our current marketing system. Dry peas and lentils are indigenous to a relatively small area in the United States. Ninety-five percent of all dry peas and lentils produced in our country are grown here in an area approximately 35 miles wide by 100 miles long. What is particularly unique about this truth is this is hilly or steep farmland. Immediately, of course, in the minds of the dedicated conservationists comes a thought of soil erosion in this type of terrain.

Gentlemen, we do have a problem with soil erosion and it has been a serious problem when summer fallow is a regular part of our farming rotation. However, since peas and lentils have been grown in our areas, summer fallow has been nearly eliminated and soil

erosion has been drastically reduced, and will continue to be so as long as peas and lentils can be grown profitably, but sometimes profit is hard to come by. However, farmers have planted these crops, realizing that the only benefit from that crop may be from reduced soil erosion while a chain of manipulators took these crops of peas and lentils and traded and retraded before the ultimate consumer felt that he paid too much and the producer received too little.

I would direct your attention to the written testimony of Mr. Ed Hoffman, manager of the Whitman County Growers, for amplification of this particular thought.

Now, how does this relate to what we are addressing ourselves to today. We export 60 percent of our peas and 70 percent of our lentils and are dependent upon those in this system to create an equitable price to the grower. Realistically, can we assume that this is their first objective and let's not be naive. We must take care of our own.

The proposed amendments to the Farm Credit Act of 1971 are very important to the growers of peas and lentils in this era of volatile prices. The grower is very closely allied with his cooperatives and has confidence in this step of marketing. Our cooperatives are very closely allied with the bank of cooperatives and have confidence in this relationship. It's logical, then, is it not for this system to provide the necessary means to consummate a final sale of commodities.

The Federal land banks, the Production Credit Association and the banks of cooperatives have been created with great foresight for the farmer's financial needs to date. Now, they make this proposal to broaden their lending capabilities in the interest of the American farmer. This is sound and this is timely. This will provide a new confidence to the growers of peas and lentils. We must have these crops to help our conservation practices. Since we export heavily from this supply we help our balance of payments with cash dollars. We will be filling a void that seems to be attracting foreign presence in a sensitive area of our national economy. The banks of cooperatives are perfectly structured with an indepth understanding of the growers and cooperatives needs to fill this gap in our marketing system.

Gentlemen, "A straight line is the shortest distance between two points." This law of physics is also applicable to the farmer's economy. We can strengthen the rural economy of our land and added impetus to a vitally important institution, our banks of cooperatives, by providing for direct export sales.

Thank you for your consideration of this testimony, gentlemen, and thank you, again, for coming and you have made it a pleasure to be here.

Mr. JONES of Tennessee. Thank you, Mr. Moore. Mr. Hoffman, do you have a statement?

Mr. HOFFMAN. I don't have anything to add, but I would be glad to answer questions later on.

Mr. JONES of Tennessee. Let me ask you this. There is a prepared statement here by you. Is it the same as Mr. Moore's statement?

Mr. HOFFMAN. No; that is supplemental to Mr. Moore's statement.

Mr. JONES of Tennessee. If there is no objection, then, we will make it a part of our record.

Mr. HOFFMAN. All right.

Mr. JONES of Tennessee. Thank you very much.

[The prepared statement of Mr. Hoffman follows:]

PREPARED STATEMENT OF E. J. HOFFMAN, WHITMAN COUNTY GROWERS, INC.,
COLFAX, WASH.

Members of the committee, I am writing with regard to the proposed legislation which would authorize export financing and servicing for farmer cooperatives. Our cooperative is located in Whitman County, Washington and warehouses wheat, barley, peas and lentils for 920 farmer members. These members are anxious for their local cooperative to make sales of peas and lentils directly to the foreign buyer.

During the past year this organization has embarked on a new enterprise which is processing peas and lentils. As our farmers sell their "field run" peas and lentils to us we make contractual agreements with various brokers or exporters to deliver the commodity in processed form. Upon shipment of a contract in September we discovered that our lentils had been bought and sold four more times and that ultimately the shipment was destined for Algeria. Exporting directly to Algeria would bypass these middlemen and their margins could be passed on to the farmer.

Peas also have direct export capabilities. In our farming area a new variety is being produced which is especially desirable to the Japanese consumer. Last April we were contacted by a Japanese importing firm expressing an interest in purchasing this commodity directly from our cooperative. This is a new market and it would be advantageous for our farmers to capture it.

Whitman County Growers, Incorporated is unable to provide the benefits to its members outlined in the above examples. The major deterrents are the credit risk with foreign buyers and the risk of foreign exchange losses. Many banks are able to provide services which minimize or eliminate these problems. Our bank which is the Spokane Bank for Cooperatives, is prohibited by law from helping us in this manner. If the proposed legislation is passed our own bank could make direct exporting a reality for Whitman County farmers.

Thank you for your consideration and interest.

Mr. JONES of Tennessee. The next witness is Mr. Richard Wilcox, secretary of the Oregon Cooperative Council, Gresham, Oreg.

Welcome, Mr. Wilcox, you may proceed.

STATEMENT OF RICHARD WILCOX, SECRETARY,
OREGON COOPERATIVE COUNCIL

Mr. Chairman and Members of the Committee:

My name is Dick Wilcox. I am presently the Executive Secretary of the Agricultural Cooperative Council of Oregon and a Consultant to the Gresham Cooperative. I was the manager of the Gresham Cooperative for twenty-five years until my retirement at the end of 1977. The Council is a trade association of about 45 local cooperatives, three major farm organizations, and several regional cooperatives serving local cooperatives in the State of Oregon. Included in the Council membership are the Spokane Bank for Cooperatives, all the Federal Land Bank Offices in Oregon, and many of the Production Credit Associations in Oregon. Gresham Cooperative is a local farm supply cooperative which is located in what has been, until recently, a predominately agricultural area surrounding Gresham, Oregon, about twenty miles east of Portland. I appreciate this opportunity to present testimony concerning House Bill HR-4782, the Farm Credit Act Amendments of 1979. My testimony will be divided into two parts: First, in rather broad terms, I will testify on behalf of the Agricultural Cooperative Council of Oregon as to its stand on the Amendments, and the need for them, and second, and more specifically, will be my personal testimony on behalf of Gresham Cooperative, based on years of experience as their manager in a farming area faced with rapidly expanding urbanization. This will focus on the proposed Amendment to lower the requirement for farmer membership in cooperatives eligible to borrow from the Banks for Cooperatives. The present requirement is 80% farmer members, except rural utilities, where it is 70%. The proposal is to lower the percentage for all associations to 60%.

The Agricultural Cooperative Council of Oregon is unanimous in their support

of House Bill HR-4782, the Farm Credit Act Amendments of 1979. The purpose of the amendments is to update the services of the Federal Land Banks, the Production Credit Associations, and the Banks for Cooperatives to meet the growing and changing needs of the farmers and cooperatives that borrow from the System. All three of these members of the Farm Credit System provide an important and vital service to the farmers and their cooperatives throughout the state of Oregon, and we feel that it is necessary that we continue to provide them with the tools they need to do the job we have come to expect from them. We believe that the Farm Credit Act Amendments of 1979 will do just that. Therefore, the Agricultural Cooperative Council of Oregon urges your support of House Bill HR-4782.

I would like now to turn your attention specifically to the proposed amendment that would lower the requirement for farmer membership in cooperatives eligible to borrow from the Banks for Cooperatives from 80% to 60%. It is important to remember throughout the following discussion that other laws of long standing require cooperatives to do more business with members than with non-members and that a customer is not a member unless he has complied with all the requirements of membership and is entitled to all the privileges and responsibilities of membership, such as the right to vote and hold office and the right to share in the profits of the association. Probably the most important requirement for membership in a farmer cooperative is that the member be a producer of agricultural products. All of this is not likely to be much of a problem to marketing cooperatives, but it has turned out to be a very serious problem to many farm supply cooperatives in Oregon, especially those near cities or metropolitan areas. I have no doubt that this is true throughout the nation. To more fully understand the nature of these problems

and how the adoption of this particular amendment would help to solve these problems, I would like to tell you some of the history of the Gresham Cooperative and the community it serves and how we have struggled in recent years to maintain our eligibility to borrow from the Spokane Bank for Cooperatives. Gresham Cooperative is a prime example of the effects of urbanization of its trading area on a farm cooperative.

Gresham's trading area is generally considered to be eastern Multnomah and northern Clackamas counties, stretching west to east from Portland's city limits to the base of Mt. Hood, and north to south from the Columbia to the Clackamas rivers. Agriculture consists of relatively small and highly concentrated farms raising primarily strawberries, cane berries, vegetables and nursery stock. When I arrived in 1953, Gresham was a very small town of less than 3,000 people, the co-op was dealing strictly with farmers, and was doing about \$200,000 in annual volume, a high percentage of it with farmers living between Gresham and Portland. The co-op experienced modest but steady growth until 1968 when it borrowed funds from the Spokane Bank for Cooperatives and built new facilities at a new location at what was then the east edge of Gresham. At that time we were the first and only business on either side of the street between two main thoroughfares. At that time we were still doing virtually all of our business with farmers, and, we thought we had an ideal location to continue doing just that.

In the early seventies the urbanization of the area began in earnest and by the mid seventies it was going full steam and is still going strong in 1979. All of this has had a dramatic effect on the co-op, but not altogether in the

manner one might expect. There are now no farms between Gresham and Portland; the city of Gresham has vastly expanded its boundaries and now has a population of over 30,000; the street the co-op is on is now filled with other businesses on both sides; and a lot of precious and valuable farm land is now covered with homes, apartments, condominiums and asphalt. However on the good side, it has resulted in a tremendous increase in the number of part time farmers with small acreages beyond the city limits where sewers and other facilities are not available.

In the meantime, because of its facilities, location, and service to its members the business volume of the Gresham Cooperative continued to grow at an astounding rate. We soon realized that unless some drastic action was taken, we were fast approaching the time when non-member business could overcome our member business and our whole status as a farmer cooperative as well as our eligibility to borrow from the Spokane Bank for Cooperatives would be in jeopardy. The first decision the Board of Directors made at that time was to establish the policy to maintain the cooperative's status as a farmer cooperative as long as humanely possible. The second decision was to make an all out effort to sign up new members, with special emphasis on the new influx of part time farmers, who, up until that time, had been virtually ignored as far as memberships were concerned. The result has been gratifying, bringing in over 2,000 fully qualified new members over the last five years and raising the member business to a more comfortable 65%.

In the meantime business volume as well as customers continued to grow. (1979 sales volume will be nearly \$4,000,000). Non producer customers continued to ask how they could become a member in increasing numbers. A system was devised whereby such customers could sign up as what we called "qualified non-members".

This means that they have all the rights, privileges and responsibilities of a member except the right to vote and hold office in the cooperative. They share in the profits and receive patronage refunds on their purchases, just like a fully qualified member. We have been amazed by the interest shown by our city friends in this type of "membership", having signed up over 600 qualified non-members in about 2½ years. We are looking forward to the day when we can give them the right to vote so they can be classified as members. The main reason we have not is because of the effect it might have on our eligibility to borrow from the Banks for Cooperatives. If the 60% provision were to be adopted, it would permit this to be done while still retaining the voting control in the hands of producers of agricultural products. We believe the Gresham Cooperative is typical of what is happening to many cooperatives in the northwest and in the nation who are faced with the threat of urbanization. Cooperatives, like any business, must continue to grow to meet the ever expanding needs of their customers, or they will eventually wither and die. Regulations that tend to stifle this growth should be removed, or, at least, eased as much as possible.

The Agricultural Cooperative Council of Oregon and the Gresham Cooperative, for whom I am privileged to testify today, both believe that HR-4782, the Farm Credit Act Amendments of 1979, would remove some of these restrictions, modify others, and grant such additional rights and authority to the Farm Credit System that it will make it possible for the Banks for Cooperatives, The Federal Land Banks, and the Production Credit Associations to better serve the cooperatives and the farmers of America. I would be pleased to respond to any questions.

Mr. JONES of Tennessee. Thank you, Mr. Wilcox. It's a good statement and we appreciate it very much.

The next witness is Mr. Albert J. Treiber of Ephrata, Wash.

Welcome, Mr. Treiber, we are delighted to have you.

You may proceed.

**STATEMENT OF ALBERT J. TREIBER, NORTHWEST LIVESTOCK
PRODUCTION CREDIT ASSOCIATION**

Mr. TREIBER. Thank you, Mr. Chairman.

I am Albert J. Treiber, director, Northwest Livestock PCA. I also serve on the PCA National Committee as the representative of the 12th farm credit district PCA's.

My brother and I own and operate a cattle and grain ranch at Ephrata, Wash.

Speaking on behalf of Northwest Livestock and other PCA's of the 12th farm credit district, I want to thank you for the opportunity to appear here today to express our views concerning H.R. 4782, the Farm Credit Act Amendments of 1979.

On a personal basis, the Farm Credit System has been very good for me and my family and we are deeply committed to it. My father was a charter member of Northwest Livestock PCA and without the financial help that he received our ranch would not have survived the depression of the 1930's. The system has continued to supply financing needed so that my brother and I are able to keep the family ranch going and meet the needs of the future. We are proud to be members of an association and system that is wholly owned by the farmers, ranchers and fishermen it represents. It is also very satisfying to be able to come to you and ask for legislation that will not cost the U.S. Government any money.

I might, if I may, Mr. Chairman, submit the rest of my written statement and digress from it, just to make a few comments.

Most of the points in regard to the various issues in the amendment act have been pretty well addressed and pretty well covered by knowledgeable people in our system and I am very proud that we have director involvement among all three banks in our system here and as you have seen today, farmers and directors from all aspects, the land bank, the PCA, the bank of cooperatives have been here to testify. We are not all a bunch of professional testifiers, but we are just farmers trying to give you our message.

I think that as a member of the PCA National Committee and as a member of our 12th district advisory committee for the past 6 years, I have been involved personally in seeing and working on the legislation that has come to this point. The thing that I would like to emphasize to you is that the major proposals in our request and in this legislation come from the grassroots, even the things that we found and were proposed from among our membership, several years ago, some of them, and finally are coming to the point, now, that we can see that they may be enacted and the reasons for the requests are all well founded, as you have heard today.

One other thing that I would like to address myself to is the ability and authority for PCA's to sell insurance. There has been a little oppo-

sition to it today, but I would like to make the point that this authority was given to the PCA, it's in the Farm Credit Act of 1971 under the related service part of it, and that PCA's are not in the insurance business, we have not formed insurance companies. We merely are trying to give a service to our member borrowers. Now, if this service is competitive to other agencies or other groups we don't feel bad about that. What we are trying to do is to do the best job we can possibly do with the least possible cost to our member borrowers. I think that in the 12th district here the major insurance program that we have is related to the credit life program, but even at that I believe that only 46 percent of our membership, now, takes credit life from their PCA's. There is some crop-hail sold in some areas, but it is not a major program in the district. But I do defend the right that the PCA's should be able to give this service. I think that is a good service and it certainly is a service that is made available to our member borrowers, but is not in any way forced on them. As a director I can assure you that we police that very closely. We have specific rules and regulations that govern our management people and we made this service available to our members, but if they can get the same service elsewhere for less cost, more power to them.

As a personal instance, although I have been a member of Northwest Livestock for most of my life and director the last 12 years, my brother and I only recently, within the last few years, went into the credit life insurance program with the PCA and it was simply economics. Up until that point I didn't have much gray hair and had a little more hair than I have right now, so the premiums were less through a private agency. But as we got a little older we are now able to get that insurance at a lesser premium through our PCA. So it's simply just good business and, I think, a good service.

I think that point and the fact that whole act has or, at least, the major portion of the act has come from the grassroots. A fact that I would like to impress upon you.

I do hope that your subcommittee will look upon this legislation favorably and act upon it at an early opportunity, because there are many things in there, in areas of credit that will certainly help all of us and be a great help to all the system, whether it be the PCA, land bank or bank of cooperatives. Our aim is the same in that we are trying to do the best job we can for American agriculture.

Thank you.

Mr. JONES of Tennessee. Thank you, Mr. Treiber, for a very good statement. Because you summarized your statement, your entire prepared statement will be placed in the record.

[The prepared statement of Mr. Treiber follows:]

PREPARED STATEMENT OF ALBERT J. TREIBER, NORTHWEST LIVESTOCK PRODUCTION CREDIT ASSOCIATION

Mr. Chairman and members of the subcommittee, I am Albert J. Treiber, Director, Northwest Livestock PCA. I also serve on the PCA National Committee as the representative of the 12th Farm Credit District PCAs. My brother and I own and operate a cattle and grain ranch at Ephrata, Washington. Speaking on behalf of Northwest Livestock and the other PCA's of the 12th Farm Credit District, I want to thank you for the opportunity to appear here today to express our views concerning H.R. 4782, the Farm Credit Act Amendments of 1979.

On a personal basis, the Farm Credit system has been very good for me and my family and we are deeply committed to it. My father was a charter member of Northwest Livestock PCA and without the financial help that he received, our ranch would not have survived the depression of the 1930's. The system has continued to supply the financing needed so that my brother and I are able to keep the family ranch going and meet the needs of the future. We are proud to be members of an association and system that is wholly owned by the farmers, ranchers, and fishermen that it represents. It is also very satisfying to be able to come to you and ask for legislation that will not cost the U.S. government any money.

The credit needs of American agriculture have changed great deal since my father and his fellow farmers started with their PCA in 1934 and the Farm Credit Act of 1971 brought about many of these needed changes to the Farm Credit system. Now it is time to further refine that act with HR 4782, the Farm Credit Act Amendments of 1979 and I ask for your support.

While I am a PCA Director and do address my remarks to those items concerning PCAs, I am well aware that ours is a cooperative system and I support those efforts of the Federal Land Bank and Bank for Cooperatives to obtain changes that will help better serve their members. I think the aim is the same for all of us and that is to better serve agriculture.

The request to finance processing and marketing activities of farmers by FLBs and PCAs has been brought about by the effort of today's farmer to extend his operation closer to the point of consumption, thereby improving both his marketing practice and income. An example in my own area in the Columbia Basin is among the potato growers and fruit growers. It take a great deal of capital investment to build the necessary processing plants and storage facilities. By being able to process his own production and the production of other bonafide farmers, he is able to make feasible that capital investment. I think the same thing will come into being with the coming of the catcher-processor vessels of our fishermen members. It is not intended that FLBs or PCAs would finance cooperatives or increase competition in areas served by cooperatives. Each Farm District Board will establish specific policies in this area.

Our "farmers of the sea" were included in the Farm Credit Act of 1971 but some of the lending authority by the Farm Credit system to them was overlooked. This includes the authority of FICBs to discount the aquatic loans of other financial institutions, aquatic cooperatives to borrow from the BCs, and FLBs to provide real estate mortgage loans to fishermen. The inclusion of these measures will simply provide equal treatment by the system to producers and harvesters of aquatic products.

In summary, I would like to say that the legislation proposals in HR 4782 came from within the Farm Credit System as the result of a great deal of work and desire to better serve our member borrowers. Due to my involvement as a PCA board member, a member of the 12th District PCA Advisory Committee and the National PCA Committee, I am pleased with the legislation we are proposing. I know first hand this legislation has come from the grass roots starting in my local PCA board, our district Advisory Committee, the District and Federal Board.

Thank you.

Mr. JONES of Tennessee. The next witness is Mr. Robert Stuhlmiller, Washington State Farm Bureau.

Mr. Stuhlmiller, we welcome you, we're glad to have you. You may proceed.

STATEMENT OF ROBERT STUHMILLER, WASHINGTON STATE FARM BUREAU

Mr. STUHMILLER. Chairman Jones, Congressman Marlenee, it is my privilege to appear before you today representing Washington State Farm Bureau. I am the immediate past president of that organization here in the State. I have been asked to present this statement on behalf of the organization.

Let me just digress to say that I am an active farmer, in the Reardon-Edwall area which is about 20 miles west of where we are today, a dryland grain operation out there.

I want the subcommittee to be fully aware that Farm Bureau supports the original purpose and role of the Farm Credit System and the role that it plays in the development of our agricultural industry. The future stability of agriculture is dependent upon an adequate source of dependable credit.

In fact, if I remember my Farm Bureau history, we have always stated with pride that the passage of the Rural Credit Act and establishment of the Intermediate Credit Banks were among the earliest of Farm Bureau legislative accomplishments.

I would like to quote from Farm Bureau policy.

Agricultural and farm forest credit needs are changing and growing. Farmers and ranchers need a variety of credit facilities to finance operating expenses and the purchase of farm equipment, motor vehicles and facilities. There is a growing need for farmers to borrow money from nongovernmental sources on the security of commodity collateral.

Farm Bureau encourages the non-government suppliers of agricultural credit, especially those suppliers which are owned by farmers and ranchers, to provide credit services to meet these needs. We favor keeping the cooperative credit system for the need of bona fide farmers and ranchers only.

We recommend that the Farm Credit System not offer financially related services where adequate services are available to borrowers from other established sources. We will propose changes in the farm credit laws that will prohibit farm credit institutions from selling property and casualty insurance.

The proposed changes in the Farm Credit Act are so important to the entire agricultural economy, they require a great deal of study and review. We are not saying no to the proposed amendments, but asking to what degree do we extend the services of the Farm Credit System.

We question the authorization for creation of the FCA insurance companies, when there seems to be little justification for the participation of the Farm Credit Administration in collateral insurance programs.

I am sure the cooperative Farm Credit System feels that their loans to farmers and ranchers must be protected through adequate insurance programs. We recognize that as sound business practice, but I believe there is an adequate number of private insurance carriers to provide the needed coverage. The argument might be presented that the service could be provided on a contractual basis. I believe the district may have that authority already, from the 1971 act. The amendment on incorporation of system service entities authorizes the organization of a corporation to provide the service. This is much more far reaching. The borrower might feel pressured to purchase his insurance from his lending institution. While under today's situation the borrower has the opportunity to select the company which he believes will provide the necessary coverage and adequate servicing at the most reasonable cost.

I understand the goals of the Farm Credit System, as it relates to credit related services, states services might be available in some districts and not in others, according to the local need. We appreciate the philosophy of allowing the districts to pick and choose, but once an

organization was structured there would be pressure by one district on another to participate in the entire program. Those programs might be so broad as to eventually include health and disability insurance.

We consider the legislative proposal on export-import financing to be far reaching, but recognizing the importance of agricultural exports to insure a sound agricultural economy.

We believe the agricultural producer would be better represented in the marketplace if cooperatives would handle directly the sale of commodities to the foreign buyer. Again, I would like to quote Farm Bureau policy :

Cooperatives should increase their share of export sales to enhance member income. We encourage and will work with regional cooperatives to improve their marketing strength by developing direct export capabilities through mergers and joint effort with other cooperatives. This capability should include the ability to finance facilities and inventories for direct export marketing to compete with the large international marketing firms.

We raise the question of the feasibility of the Banks for Cooperatives investing in foreign agricultural institutions or servicing operations. Several bad experiences with foreign operations could seriously impede the credit system ability to have adequate resources to fulfill their role in financing agricultural operations. Could the Bank for Cooperatives better serve their member cooperatives by establishing correspondent relationship with foreign banks or banks doing business in foreign countries.

Mr. Chairman, the proposed changes merit a complete review by our membership through our policy development program. I am sure some of the proposals will receive considerable discussion and, therefore, we ask that Congress will delay consideration of the amendments until after the first of the year.

Thank you.

Mr. JONES of Tennessee. Thank you very much, Mr. Stuhlmiller.

We have been asked before to delay the consideration of the farm bill by members of the Farm Bureau until after the first of the year.

Mr. Dick Graves of Valley Trout Farms, Buhl, Idaho, is the next witness. Then my list shows we will be concluding with Mr. Roy Gunnari, who is supposed to come back and talk about insurance for a moment. My list shows he is the last witness.

Is there anyone else here who has something they would like to say on credit? We will be glad to listen to you.

Mr. GRAVES. Mr. Chairman, I would like to make two statements as part of my testimony. One statement, which I will read, of Mr. Ken Ellis, who is president of U.S. Trout Farmers Association. The other one will be a statement on my own Valley Trout Farms.

They are both short statements.

The first statement is on behalf of Mr. Ken Ellis, who is president of the U.S. Trout Farmers Association.

STATEMENT OF KENNETH ELLIS, PRESIDENT, U.S. TROUT FARMERS ASSOCIATION, PRESENTED BY DICK GRAVES

Mr. GRAVES. As a farmer of an aquacultural commodity, the rainbow trout; as an owner of two feed mills which have the capacity of

producing feeds for several different types of livestock, and as a representative of an organization which numbers over 2,500 farmers. I believe that I should make some general statements about about this legislation. H.R. 4782.

We, within the industry, are well aware that we are only a fledgling within the agricultural community. Nevertheless, we are not a new breed of farmer. History indicates that aquaculture farming and harvesting, in controlled and noncontrolled aquatic environments, is thousands of years old, yet it has been only within the last two decades that our industry has become recognized as an additional viable and essential food producer.

The reasons for this tardy recognition are many, but a couple of them should be mentioned at this time.

First, the industry has not taken an active role in developing its own market identification and values, basically because it has been so busy in developing its commodity—technologically, ecologically, and economically.

Second, the ability to obtain short-term and long-term capital and operating financing has been severely limited due to the lack of information and knowledge on the industry's needs, and on the valuation of the industry's resources. This lack has affected the ability of the financing community to assist the aquaculture industry's growth. Therefore, the financing has been limited to the known qualities of the borrower and has not reflected the conditions and viability of the industry.

With the advent of legislation known as the Farm Credit Act of 1971, some of the risk elements became less significant and critical to the participating financier. This change was attributable to the fact that the aquacultural farmer and his product were being recognized, through statute, for what it really was, an industry which produced an agricultural commodity. Thus, lenders servicing the agricultural community were a little less hesitant to make loans to fish farmers. But there is still some reluctance on the part of the commercial lender to finance an aquaculture endeavor.

This, therefore, is the reason why I believe that our industry should support this newest legislation, the Farm Credit Act Amendments of 1979. Your efforts to clarify the original intent of the 1971 act, and to redefine the total agricultural community is very commendable and it is essential to the agricultural health and well-being of our country and that of the world.

We are already very appreciative of the support and certain guidance which these participating banks, credit associations, and systems have provided the aquaculture industry. We further believe that this legislation will enhance this cooperative relationship to the benefit of the financing community and, just as importantly, to the benefit of the American consumer.

STATEMENT OF RICHARD L. GRAVES, VALLEY TROUT FARMS, INC., BUHL, IDAHO

Mr. GRAVES. Mr. Chairman, my name is Dick Graves and I am vice president and financial manager of Valley Trout Farms, with headquarters at Buhl, Idaho. Our company is in the business of producing

rainbow trout for distribution throughout the United States and Canada.

I am a former employee of the Farm Credit System, having worked for Southern Idaho Production Credit Association for 8 years prior to joining the Valley Trout organization. I am well acquainted with the system and the direct benefits that it offers to the agricultural community.

Our primary interest in these amendments is to clarify that we, in the trout industry, are classified as either fish farmers or producers or harvesters of aquatic products as far as the Federal Land Banks are concerned.

Valley Trout Farms, Inc., has an excellent relationship with its primary lender, Southern Idaho Production Credit Association, at Gooding, Idaho. We obtain our short-term operational credit from these people. We also have had to borrow all of our long-term capital funds from them, on a short, intermediate-term basis due to the reluctance of the Federal Land Bank to become involved. We believe that some of the reluctance has been, in part, due to the Federal Land Bank not having clear-cut direction in lending to trout farms. By this, I mean that according to the Farm Credit Administration's own definition:

A producer or harvester of aquatic products is a person or persons engaged in production or harvesting of aquatic products for economic gain in open waters under uncontrolled conditions.

Our PCA and the Federal Intermediate Credit Bank in Spokane has accepted us at regular farmer status, which we appreciate.

We are part of an industry that, in 1979, will gross nationwide from all sales over \$100 million in revenue.

In Idaho, the trout industry will exceed \$50 million of gross sales this year. This exceeds the gross sales of the sheep industry in the State of Idaho, and positions the trout industry in second place, behind only the cattle industry, in revenues derived from meat sales. Our industry has had a very positive impact on the economy of the State of Idaho and will continue to make that type of contribution providing proper and adequate financing remains available.

We support the proposed amendments in H.R. 4782 to the Farm Credit Act of 1971. This is positive and constructive legislation that will help keep America's agriculture production No. 1 in the world and head us up the road toward economic viability tomorrow.

Mr. Chairman, I would be pleased to respond to any questions that you or your subcommittee might have.

Mr. JONES of Tennessee. Thank you very much, sir.

When we finish with all our witnesses, we'll call you back.

As far as I know, as I said earlier, Mr. Gunnari is the only man left on Farm Credit.

Mr. Gunnari, are you here? We would be glad to hear you again.

STATEMENT OF ROY GUNNARI, SOUTHERN IDAHO PRODUCTION CREDIT ASSOCIATION

Mr. GUNNARI. Mr. Chairman, Al Treiber covered my defense of the insurance, pretty well, except that I should bring out that I

don't know if anybody has ever taken into consideration Marine Insurance, which is a very difficult type of insurance and quite hard to get, for the fact that a broker, many times, has to farm out one policy to six or seven companies before they will take the risk. It seems to me that any insurance company, noting that the PCA's have \$75 million in aquatic loans in this district might consider that they are a good risk to the PCA, they would be a good risk to the insurance companies and might adequately bid on insurance, other PCA vessels, thus allowing us a fraction smaller insurance premium.

Myself, I pay over \$15,000 a year in premiums and just one-tenth of a percent would mean a lot to me. I was looking, hoping, into the future that someday maybe a PCA could render this service to our aquatic borrowers.

Thank you.

Mr. JONES of Tennessee. Thank you very much, Mr. Gunnari. We will bring that to their attention and see if we can use any persuasion on that subject.

Gentlemen, that concludes all of the credit witnesses on the list.

Mr. MARLENEE, do you have any questions?

Mr. MARLENEE. Yes, I do have a question.

Mr. JONES of Tennessee. If the witnesses will come back to the front seat, then, we'll entertain a few questions.

Mr. MARLENEE. Mr. Robert Stuhlmiller, representing Farm Bureau for the State of Washington, was it?

Mr. STUHLMILLER. Yes, sir.

Mr. MARLENEE. On the second to the last paragraph of your statement you said:

We raise the question of feasibility at banks and cooperatives investing in foreign agricultural institutions or servicing operations. Several bad experiences with foreign operations could seriously impede the credit system ability to have adequate resources to fulfill their role of financing agricultural operations.

Do you have any specific examples that you could give? This is a general feeling, a general perception that you have?

Mr. STUHLMILLER. It's basically a general perception, Congressman, because we feel that there is not necessarily an endless supply of dollars to the system and if it would lose dollars one place there wouldn't be dollars to fulfill that need possibly from another source. Does that make sense?

Mr. MARLENEE. That was just a general concern you were expressing without any documentation or without any—

Mr. STUHLMILLER. Well, it's a new area for the Banks for Cooperatives to be moving into and when you move into a new area there is risk and our feeling is that this needs to be looked at rather closely, even though as you saw from our statement there we do support expansion into export markets.

Mr. MARLENEE. Thank you, Mr. Stuhlmiller.

No question for the moment, further questions, Mr. Chairman.

Mr. JONES of Tennessee. All right. I have very few myself for this group.

Mr. Delbert Moore, I was intrigued when you said 95 percent of all the dry peas and lentils grown in the United States, are grown in this area.

Mr. MOORE. Yes, sir, that's correct.

Mr. JONES of Tennessee. I was not aware of that fact.

The thing that really hit me was the fact that you said these were grown on hill land.

Mr. MOORE. Yes, exactly right.

Mr. JONES of Tennessee. Did you say an erosion problem was created because of it? What did you allude to on erosion?

Mr. MOORE. Would you want me to go verbatim?

Mr. JONES of Tennessee. You can just summarize it. I'm sure you know it by heart anyway. I wasn't able to follow all the testimony, but I was listening.

Mr. MOORE. I need to set the scene a little bit.

The pea and lentil industry came into this area. The area I am talking about, geographically, actually starts about where we are sitting now, and it runs about 100 miles south, an area about 35 miles wide. This is actually the area that is, the only area in the United States that provides a reasonable climate, I am assuming that's the reason, for production of lentils. When I say peas, I want you to understand, dry peas I should say. Do you understand what I mean by that? It is the pea that is planted and is allowed to mature to the dry position and is simply harvested physically with combine, as opposed to the one that are harvested green and put in cans. So we have two categories, the dry pea is totally indigenous to this area, to the extent of 95 percent.

Mr. JONES of Tennessee. What kind of pea is that?

Mr. MOORE. It's, by way of variety, we call our green ones Alaskas. We call, in general terms, we call the yellow pea the first and best variety and we have take-offs from that.

Now, when we go back, peas were introduced, let's say, approximately 35 years ago, into the area and lentils sometime after that, very small acreage into our area. They have been added to in production up to a point to where they have started to decline, where they probably reached the maximum production about 20 years ago and lentils are now reaching their maximum production in acreage in our area.

Before that, before this was introduced into our area, wheat was the principal crop and still is the principal crop in our area, but what do you do? You can't raise wheat upon wheat upon wheat in our area, so the normal procedure was, on account of weather factors, on account of wheat problems, et cetera, et cetera, we work with an alternate crop, not an alternate crop, but summer fallow when we did not have the growing crop of wheat.

Now, with the advent of peas and lentils, instead of summer fallow, following a fall wheat crop, we plant in the spring peas and/or lentils in this particular area.

Now, we follow that immediately in the fall with a fall wheat crop and this has proved to be an excellent rotation for us and as you can understand, the condition of the soil going into the winter, on this hilly land, and we farm up to 45 percent of grades and so soil erosion is probably first on the mind of the 90 percent of our farmers, if you are concerned about the heritage that we have and, certainly, in the front of my mind this is the way it is.

Now, having produced peas and lentils, followed by wheat in the fall, on this same crop, a rotation has proven successful, for the most part. We have eliminated a great deal of our erosion, but our product of peas and lentils somehow, being a very minor product within the United States, and begin so dependent upon export, we feel can be manipulated, can be toyed with and we have experienced, pricewise from the standpoint of other nations, and market price, getting into the market and causing us to be on the tail end, because being so small, a minor crop within the United States, we lacked the leverages that we needed to really be successful, but it is so significant, gentlemen, from the standpoint of soil erosion to control it that we still maintain this crop or these two crops and, now, if we can see, if we can see a top in that merchandising and merchandise that crop on an annual basis, with consistency, so that we can have total confidence in those that are handling that crop, from our farm to our cooperative and to the ultimate person who consumes that, we feel a great degree of security in that.

Mr. JONES of Tennessee. What you are saying, I believe, is that if H.R. 4782 is made into law that your problem will partially be solved by the marketing procedures and possibilities and the credit that you have there, but at the same time your erosion control problem will not have been solved. You still have it?

Mr. MOORE. Yes; but if we can maintain the rotation program with peas and lentils following our wheat or preceding our wheat and not having to revert to summer fallow and economically raise peas and lentils our soil erosion problem will be greatly eliminated, and it has been. We have proven this.

Mr. JONES of Tennessee. That's what I wanted to get to. I was more concerned about the erosion part of it than I was about the other part of what you said.

Is erosion being controlled with your rotation?

Mr. MOORE. Decidely so, but not eliminated, but so much better that it is sometimes, as I indicated in testimony, the only reason that we will raise this crop, because we see, we project a poor price per ton or price per bushel on it. That isn't our deciding factor.

Mr. JONES of Tennessee. You mean as far as the wheat is concerned your yields are lower?

Mr. MOORE. No; if we see a market for peas and lentils being quite negative we will still go ahead and plant peas and lentils for the sole purpose of conservation.

Mr. JONES of Tennessee. In other words, what you are saying is, you are going to grow wheat, regardless?

Mr. MOORE. Yes; that is our primary crop.

Mr. JONES of Tennessee. And the lentils and the peas are supplements to growing wheat to control erosion?

Mr. MOORE. Yes.

Mr. JONES of Tennessee. That is what you are doing, really.

Mr. MOORE. We hope to do it economically, but it certainly has been an advantage to us.

Mr. JONES of Tennessee. So far it has been economical, too?

Mr. MOORE. Sporadically so.

Mr. JONES of Tennessee. Now, just as a matter of information for me, and this is done, I'm sure you wouldn't object to this either, what are the yields on lentils and peas like this per acre, what sort of yields do you get?

Mr. MOORE. If we talk in terms of tonnage, the lentil will yield, and let's generalize so that you can understand, we like to think that we need 900 pounds to an acre and I have produced as high as 2,010 pounds. An average, I would say we like to think that we can come up with 1,200 pounds to the acre.

Mr. JONES of Tennessee. Of either, is that right?

Mr. MOORE. No; this is lentils.

Mr. JONES of Tennessee. Lentils, what about peas?

Mr. MOORE. Peas, on today's market and we are in an area where our market is not healthful at all, the shelves are full, shall we say, and our yield there is subject to the weather, rather dramatically so, not nearly as consistent a return as wheat would be, because it is a spring crop in this area, and we can talk from 1,200 pounds to, let's say, 2,000 pounds. Now, I have raised 2,400, but let's say 1,600 pounds as an average of dry peas in the same area.

Mr. JONES of Tennessee. Yet you export about 60 percent of your peas and about 70 percent of your lentils?

Mr. MOORE. Yes; we are very dependent on the export markets, very much so.

Mr. JONES of Tennessee. That's very interesting. The conservation part of it was the thing that I was vitally concerned about, because we are fixing to go into that and I was not aware of the fact that you grew peas or a crop like that on a 40 percent slope.

Mr. MOORE. We certainly appreciate your concern in that area and, of course, we would welcome you to come at harvest time and view a part of our operations.

Mr. JONES of Tennessee. This subcommittee is intensely concerned with the conservation problem that this country faces and it is our responsibility to try to help this country to do something about it and we do know that in many sections of the United States the problem is not the same, but the end result is going to be the same if we don't get something done about it.

Mr. MOORE. Exactly.

Mr. JONES of Tennessee. Thank you very much. I appreciate that.

Do you have more questions?

Mr. MARLENEE. No; I guess it just leaves one question that seems to be in controversy here and that's the question of insurance and there seems to be some question in my mind about where we need to go with this. I don't think it has been adequately addressed here today and I think we will have to look at that further, in Washington. I think most of our people who could answer the question have left the meeting, that are a part of the Farm Credit System here or part of the central thing.

We have three casualty and property districts already organized and that's in South Carolina and New Orleans and St. Louis in Missouri, as I understand it. I don't know whether they plan to organize any more of those or not.

Is there anyone here that could give us some insight on that?

Mr. TREIBER. Yes, sir.

Congressman Marlenee, I don't pretend to be an expert on this, in regard to the collateral insurance program that is now being used in three districts in our country. I know that in talking to the PCA people on the national committee, as well as the other people in their area, that they are very pleased with their collateral insurance program that they have. They feel that they are doing a service to their customers at a favorable price and cost to them.

Mr. MARLENEE. But, Mr. Treiber, isn't this offered by industry there?

Mr. TREIBER. I'm sure that it is.

Mr. MARLENEE. Private insurance companies? Isn't this made available, casualty and property insurance?

Mr. TREIBER. I'm sure that it is available from——

Mr. MARLENEE. Several companies? Several other companies, probably?

Mr. TREIBER [continuing]. Several agencies, I'm sure. But they don't, and maybe I am getting in over my head here, the PCA's merely act as the agents. They do not have an insurance company. But they are proud of their program and think they are doing a good service to their people.

Now, in our area here——

Mr. MARLENEE. Some don't have fear though of endangering the passage of the whole act or set of amendments, if you load that up with an insurance clause or enabling legislation that would allow these districts to be set up or allow these services to be set up, except in special cases such as Mr. Gunnari lined out there.

Mr. TREIBER. What you are saying, then, is that we have the authority to do what we are doing right now, under related services, the PCA's do. Are you saying, then, am I fearful that unless we take that authority away from us that will sink the package?

Mr. MARLENEE. No; I am saying, if you propose legislation that would expand this particular area——

Mr. TREIBER. I don't think we are proposing legislation, sir.

Mr. MARLENEE. Some of that fear has been expressed to us, both in letters and in testimony, in fact.

Mr. TREIBER. My understanding is, within the Farm Credit Amendment Act that we have before us right now, as a matter of fact, there is no mention of insurance at all. But I think that some of the independent insurance agent groups and some of our farm groups are want to put an additional amendment to that act to take away the authority that we have now have and, of course, I would oppose that amendment being added to the amendments.

Mr. MARLENEE. I think one question that I did not hear addressed today, and that was, it was briefly, I guess, brushed on, and that was the participation, and I notice that you are with the Northwest Livestock PCA, does your PCA cover a large area?

Mr. TREIBER. Yes; we are statewide, Mr. Marlenee; that covers the—services the States of Oregon, Washington, northern Idaho, and Alaska.

Mr. MARLENEE. Are you participating in any loans with any banks, independent banks?

Mr. TREIBER. No; we are not.

Mr. MARLENEE. Why not?

Mr. TREIBER. I am familiar with my friends in Montana and the banking system in Montana, as I understand, is that many small independent banks in your area in Montana, that probably have overlying problems with large lines of credit.

In the States of Oregon and Washington, we have substantially large banking chains which do not run into the overlying problems that they may have in Montana. Therefore, I don't think that the requests have been made to the system in our particular area, that they may have been made in Montana.

Did that answer your question?

Mr. MARLENEE. Yes; to a certain degree.

Mr. TREIBER. I certainly have no objection to that point in the law at all. In fact, support it.

Mr. MARLENEE. But they seem to have a problem in participating because they cannot grant a 1-percent override.

Mr. TREIBER. Oh, I see. I'm not going to get into the technical points of that part of the law, because I really don't know it. I could research it and get further information to you, but I know efforts have been made in order to get a program like that underway.

Mr. MARLENEE. Thank you, Mr. Treiber.

Mr. JONES of Tennessee. Thank you very much, Mr. Treiber.

I was going to try to, I have a real hot question that I was going to push to the whole credit group, but I don't think that we are going to have the time this afternoon. I predicted the conservation statements, there are 10 in number, who will probably be a little longer than some of the others.

I want to throw out something to all of you folks who are interested in farm credit. I am vitally interested in farm credit. I always have been. I have always used farm credit. I hope I can continue to always want to use it, but I want you to think about one thing, ladies and gentlemen, who are interested and who have a part of the Farm Credit organization. Anybody who borrows from them certainly has a part of it.

We are going through a period in this country today when every time we turn to the financial section of the newspaper or a magazine or the Wall Street Journal or whatever, we see there are mergers. Mergers, mergers, mergers. Big business, all sorts of business, trying to get together for, they say, reasons of economy. I want you to think upon one for your Farm Credit Administration. You've got three banks today. You've got the Bank for Cooperatives. You've got the Federal land bank you've got the Production Credit Association. Why don't we give some recognition or consideration to merging the three banks, putting them all together? If that doesn't make sense, I don't know why it doesn't. You don't go into any community today but what you don't find two offices, one for the PCA and one for the Federal land bank. It seems to me that the time is not as far away as it has been, when your membership is going to demand that merger become a reality, and I can't see any reason why we shouldn't beat somebody to it and be thinking about it ourselves.

I just want you to think upon that. I think it's something you are going to be faced with if you continue as a Farm Credit organization.

This afternoon, we will go to the conservation, I did want to break but we won't have time, to the conservation witnesses.

Our first witness is David E. Williams, president of the California NAFEC of Corning, Calif.

Mr. Williams, we are delighted that you are here and we will be glad to listen. I understand that you have a plane to catch at 4 o'clock, so please proceed.

STATEMENT OF DAVID E. WILLIAMS, PRESIDENT, CALIFORNIA NAFEC

Mr. WILLIAMS. Mr. Chairman, members of this subcommittee, it is a pleasure for me, a farmer, to testify before you today. My name is David E. Williams. I reside at Star Route Box 1G, Corning, Calif. I am president of the California affiliate of the National Association of Farmer Elected Committeemen (NAFEC). My farming operation includes wheat, barley, oats, milo, corn, ladino clover for seed, sudan for seed and permanent pasture. Also, I grow rice at times. This phase of the operation is carried out in Glenn and Tehama Counties. In addition, sheep and cattle are produced in these two counties in the winter months and pastured in Modoc and Lassen Counties in the summer. We normally run 600 cattle and 7,000 head of sheep. My farming area is typical of California. There are lots of small farms such as orchards, permanent pasture, seed crops, and so forth, of which many are farmed on a part-time basis. Then there are farms that grow hundreds of acres of grain, rice, specialty seed crops, sugarbeets, beans, orchards, and livestock producers with thousands of acres in their grazing operation. Each of these types of farms and farm operators have their own strengths and weaknesses in the areas of finance and production capabilities. Each has his own ability to carry out sound and needed conservation projects. Due to the diverse capabilities of these operations, it may be possible that the present ACP is reaching only a few of these. Many people realize that there still remains much conservation work to be done on our farms and some are attempting to correct this situation. An example is California's Legislatures recognize this, too. Recently, senate bill 547 was introduced in the California Senate, which includes an initial funding of \$9 million cost-share program. California's share of the \$190 million ACP funding for 1979 was \$5.1 million.

My primary purpose in coming before you is to state that California and our country needs an expanded conservation program and not one of curtailment and reduction brought on by many forces. This needs to be accomplished at no extra cost to the taxpayers or consumer.

This can be done. It can be done by adding an investment tax credit to the program.

I recommend that ACP be funded at no lower than today's appropriation and add investment tax credit to the program in an either-or choice to the farmer or landowner.

As mentioned before in my comments, each farmer has different levels of financing and production ability. Let the farmer have his choice of 50 percent of the cost of a practice not to exceed a limit set by the Secretary of Agriculture and/or 50 percent of the cost as an investment tax credit.

These benefits would be made available in the same manner as the program operates today. That is, the county ASC committees would develop their own program, the producer must sign up prior to the start of a practice, the producer must elect to receive a cost share and/or investment tax credit, and the practice performed must meet program requirements and practice specifications.

As an example of my proposal, if a project cost \$4,000, the producer could receive an ACP cost share of 50 percent of the cost, which would be \$2,000, or he could receive \$2,000 investment tax credit in lieu of an ACP payment, or he could receive \$1,000 ACP payment and \$1,000 investment tax credit. With the use of investment tax credit, the producer is using his money, not the taxpayer's.

Only the ACP payment would be limited to the dollar amount set by the Secretary of Agriculture. The investment tax credit would be limited to 50 percent of the eligible cost of the practice as approved by the county committee.

Gentlemen, with county committees selecting and developing those practices most needed to correct conservation problems in their own county and with the addition of investment tax credit, we can move ahead solving the much-needed conservation of water, soil, and energy needed in our country today.

Mr. JONES of Tennessee. I have on observation, Mr. Williams, that I would just like to mention to you.

You say California's share of the \$190 million ACP funding for 1979 was \$5.1 million. You are aware of the fact that this subcommittee recommended to the full committee, and the full committee recommended to the budget, that ACP be funded at \$250 million rather than \$190 million. We came out with \$190 million, but this subcommittee did its best, and so did the full committee, to get \$250 million.

Mr. WILLIAMS. I am quite aware of it, sir, and I think you do a marvelous job to get what you get. I was just hoping we could find some way to supplement it.

Mr. JONES of Tennessee. I think you have got a good idea. I share some ideas along the same line with you about what we ought to do.

I'll just say this, because I know you are in a hurry, we're going to have to do something of an incentive-type program to get conservation practiced, in the future, as it should be practiced, in my opinion.

Mr. WILLIAMS. I agree wholeheartedly.

Mr. JONES of Tennessee. What it is going to be, I don't have the answer. We are searching for it.

I certainly appreciate the contribution you have made in the past, as well as today, and I know that the Farmer Elected Committee Association has done an awful lot in this field, and I applaud you for what you have done.

Mr. WILLIAMS. I thank you.

Mr. JONES of Tennessee. I used to be a member of this association. I am a former State committeeman.

Mr. WILLIAMS. Thank you for your time, sir.

Mr. JONES of Tennessee. Do you have any questions?

Mr. MARLENEE. No, Mr. Chairman.

Mr. JONES of Tennessee. Thank you, Mr. Williams, we appreciate your being here.

Scott Barr is the next witness. Mr. Barr is the Seventh District State representative from Spokane.

Mr. BARR, you're at home, aren't you?

Mr. BARR. Very close to home.

Mr. JONES of Tennessee. Welcome to the hearing and we would be delighted to hear from you.

STATEMENT OF SCOTT BARR, SEVENTH DISTRICT STATE REPRESENTATIVE

Mr. BARR. Chairman Jones, Mr. Marlenee.

First, let me say how appreciative we are that you are holding the hearing here on this important matter; and Representative Foley isn't here at the moment, I understand his mother is quite ill.

Mr. JONES of Tennessee. She is.

Mr. BARR. We want to compliment him also on his efforts for bringing these things about, here in our district.

I know that you folks have been here before, and especially Mr. Jones, and you may be aware that this area is one of the worst problem areas in the United States, conservationwise. I think it would only be fair to say that the reason it is one of the most problem areas is because we have a certain amount of acreage that's a little too dry to annual crop and a little too wet to summer fallow, because your questions awhile ago to the gentleman about peas and lentils and that you were extremely interested in the conservation angle of it and let me compliment you for this. He was bringing out that the peas and lentils, how much that helped. But, the rainfall throughout the inland empire varies so rapidly that a few miles down the road would be just a little too dry to annual crop, but yet it's steep and hilly, and there's an awful problem. There is a real problem. So with that little bit of background, as to the situation here in the Northwest, and I'll speak about the Pacific Northwest.

Let me say, very briefly, that my background as a farmer and as one of the leading soil conservation organization people in the area, we have tried for a long time to get a Great Plains-type program here in the Pacific Northwest, and we have made some headway. I understood by an article in the newspaper that you were going to take testimony, something about the Great Plains program.

Mr. JONES of Tennessee. We already have, from two areas, and we intend to take some more, yes.

Mr. BARR. So what you want here kind of relates to this?

Mr. JONES of Tennessee. Any type of conservation testimony will be welcome.

Mr. BARR. Thank you. Then I won't elaborate much, because most of us here in the Pacific Northwest are not supposed to know anything about the Great Plains program, because we haven't had one, but I want you to know that many of us, I have been trying for many years to get a Great Plains-type program here in the area. I haven't kept up on it in the last 2 or 3 years, since I have been in the State legislature, but I do have that background and I know it to be one of the best programs that was ever put forth in the United States, conservationwise, for several reasons. That's the long-term aspect of it

and the contract type aspects of it and the way it was funded. Those three things. So, just in general, anything that we can lead to and the people that follow me in testimony, will say in this regards I want you to know that I think that it's uppermost and should be pursued to the limit.

I would not be adverse to, if they are going to change the Great Plains program in any regards, when they do renew it, to give a little more credibility to the program, if that's possible, because I am aware of some of the plow-out. If it is a part of the program and this would apply to whatever we get here to improve our area, that if there is a plow-out of, during the life of the contracts, that there should probably be some stiffer elements in that contract, some stiffer wording, so that it could only be plowed out for a reasonable time and would have to go back in, perhaps, at a grower cost. They are plowing out this grass throughout the western part of the United States, for economic reasons. Well, if the economic reasons are good enough for them to plow it out, you and I know how much of this plowing out should not be plowed out, and on the Indian reservations especially. Now, we know this for economic reasons.

Now, if I was sitting in your place I would say, well, if they are going to plow it out for money, then, by gosh you put it back in with that money. Don't come around and ask for public money, as much as you did in the first place, to put it back in and if they would say that it would have to go back in it has to go back in but it should be at a different cost share. If they are going to be sincere and honest, to do that.

Let me not take up too much time, because I have put in over half my life working on this and I might get carried away, but let me be brief.

We have come up with a long-term agreement, of course, and that was the one element that was a little bit of side benefit out of the Great Plains program. But it hasn't really taken hold. My point in mentioning that is, why? Because the farmers of the Pacific Northwest do not trust the Federal farm crop programs conservationwise. They do not trust them. They have been hurt time and time again and I hope, I see some fellows sitting back here that knows more about the most current catastrophes than I do and I hope they will be testifying on this.

It's a good program, I would like to sign up. I would like to sign up a conservation program of 3, 5, 10 years, but I have been hurt before. The best conservation farmers have been hurt and I don't want to be tied down to a program that I am going to get hurt on. The conservation districts of the Pacific Northwest, I'll say, are second to none in the United States. Of course, you know there are 3,000 soil conservation districts throughout the United States and I am proud of ours here in the State of Washington and our president will testify. We are one of the leaders in the West. They are willing to take more leadership than we are in the water quality program and the Great Plains-type program, of course, as you know, does involve the conservation district. I think you know as well as I know why that makes a better program, with the farmer involvement.

I have covered my main points, without elaborating on the ASCS versus the other method of funding in a Great Plains-type program and we are moving forward and we have done a lot of good.

The cost-sharing program, I want to be very complimentary to the cost-sharing program of the ASCS, in the past, but we all know there has been some money wasted because they have paid for some practices that would have been done anyway, but they have done the very best they could and they have been a very valuable tool, but we are not moving rapidly enough in the conservation area and this Great Plains-type program is very much needed.

With that I will quit now and I'll be around for awhile if you have questions to ask, afterwards, now or whenever.

Mr. JONES of Tennessee. Thank you, Mr. Barr. If you can stay, there will be a question or two. There is a comment or two that I would like to make in regard to the conservation program nationally, but I would rather not take the time to do it until we hear them all.

Thank you very much.

The next witness is Mr. William Rigby, president of the Utah Association of Farmer-Elected Committeemen, Centerville, Utah.

Mr. Rigby, we appreciate you being here and we will be delighted to hear you.

STATEMENT OF WILLIAM RIGBY, PRESIDENT, UTAH ASSOCIATION OF FARMER-ELECTED COMMITTEEMEN

Mr. RIGBY. Thank you, Mr. Chairman.

I am very happy to be here and represent the Utah Association of Farmer-Elected Committeemen. I am also a farmer and I live and farm in Centerville, Utah, which is located about 16 miles north of Salt Lake City, Utah. I do diversified farming on approximately 100 acres of ground. Presently I raise such crops as pickling onions, green onions, radishes, cucumbers, squash, we have quite a fruit orchard and along with my wife and family we operate this farm.

I am the president of the Utah Association of Farmer-Elected Committeemen and have served on the Davis County Community Committee for 3 years and on the county committee for some 5 years.

I appreciate the opportunity of meeting before you and expressing and testifying and more importantly I appreciate the fact that your subcommittee recognizes the importance of good conservation practices.

As individuals and as a nation we have spent billions of dollars on insurance policies of different types, and we have mentioned some of those insurance policies here today. Good water and soil conservation is a great insurance policy for us and future generations of farmers, but there is a limit as to how much farmers can really afford. Is it not as important to the million of Americans who are not farmers to share in the cost of preserving a food supply for future generations?

ACP was the original EPA program for agriculture and if it were more fully implemented the clean water program would not have been nearly as necessary. Holding the soil on the Nation's millions of farms through cover crops, contouring and planting forest trees in the same ratio as in the 1940's have greatly protected our streams. The

Soil Conservation and Domestic Allotment Act of 1936 has and is doing a great job, administered by the Farmer-Elected County and Community Committeemen.

I might say that this act was originally or was supposed to be funded at \$500 million. I don't believe that it has ever been funded at the full \$500 million.

Mr. JONES of Tennessee. You are correct.

Mr. RIGBY. It's too bad.

Farmers have shown that they will carry out these practices in partnership with the Government. The only reason they have not done more is because they have been discouraged by so little money available.

Some of our ACP practices here in Utah are as follows:

Irrigation water conservation. In my own area deep ugly ditches have been made by irrigation water in the farming areas. These ditches have not only been road hazards but also a dangerous play area for children and they have been cleaned up by the ACP practices of the county and the State, which is funded by the Federal Government. Soil erosion and water waste have been corrected and the whole community has benefited.

Animal waste control facilities have been installed on many farms. This is a great help in keeping pollution out of streams and ponds. I would like to kind of go a little further there, Mr. Chairman. Many people don't know what this animal waste might mean, but that's a manure bunker in many cases and we have several 100- to 500-cow dairy farms, from which the runoff of that manure would run down to neighboring places and into field and streams and pollute and through this we have been able to correct that to a great degree. This farmer doesn't really realize that much benefit out of it. It's been a community service, really, and he's paid half the cost.

No. 3 is planting of range land to permanent cover. This practice is not only an enduring conservation practice, but it stops soil erosion as well. Think of the great value to wildlife for feeding and nesting.

I expect a lot of feedback when people read this, because I said feeding and nesting for wildlife. I have a grain field that borders a national bird preserve and I would say that those birds feed more on the public property—or on private property than on public. Every year when I combine my grain and barley they come in there by, at least, 300 to 500 head and feed for 2 to 3 weeks and they feed really good, because of the things that go over the griddles onto the ground over the thrasher or the combine. So I think that conservationists or sportsmen would have to look at the amount of private feed that is produced off these farms for wildlife, such as deer. I have 200 head of deer in my orchard every winter and it's quite a thing to see 200 head of deer feeding on the end of your branches. These people that think that the farmer doesn't feed the wild animals have another thought coming.

No. 4 is sediment retention, erosion or water control structures, and terracing which retains runoff water which washes away the soil.

You know, in Utah we have an average snow and rainfall of about 13 to 14 inches. This year we had about 7 and if we don't control the runoff when it does come, we lose it and the runoff comes generally in such heavy proportions, when it does come in a cloudburst, that it

washes away the soil. We conducted a tour this year of some of our terracing and we showed the Congressman from our area and the Senators some of this type of terracing which is done greatly to retain that water and save the soil from washing away, down into the Great Salt Lake.

ASCS has qualified help and assistance that is needed to carry out these practices with very little, if any, additional help. ASCS has nearly every farmer on its mailing list. Most of these farmers are acquainted with the ASCS program and have participated in it. Farmers have confidence and trust in the farmer-elected committee system.

I might say that all of the farmers that live around me, as most of them have and one or two that didn't, when I got acquainted there several years ago they kept asking me, why are we waiting, simply because they hadn't been introduced to it and, now, most of those farmers are cooperating and participating in the program.

Another thing is, we save money. We are fully staffed to operate with these extra funds that might be needed or allowed if they come and if not we still have the normal procedures and we would very much want to see this Rural Clean Water Act funded with the ASCS having the administration of it.

We extend an invitation to you, Chairman Jones, and others on your committee, if they would like to come and see of these practices we would just be tickled to death to take you out and show you how well we are doing with them. We are very pleased with the results of them. Who knows better the needs of four farm and ranchland than the farmers who have worked in harmony with Mother Nature in order to survive. Protecting our soil and water is a continuing and changing battle which is never over. Our conservation program needs your continuing help.

Mr. Chairman, I wish to thank you and members of your committee for allowing us the opportunity of appearing here and testifying and I would be glad to answer any questions.

Mr. JONES of Tennessee. Thank you very much, Mr. Rigby, for a very good statement. Who is your Congressman?

Mr. RIGBY. Congressman Marriott is one and my own Congressman is Gunn McKay.

Mr. JONES of Tennessee. Gunn McKay, he is a very able man and a very, very interested person in conservation. I have a great regard for him.

If you're going to stick around a little while we'll get back to this.

The next witness is Mr. Charles W. O'Neill, Jr., president, State Association of Conservation Districts of Washington.

Mr. O'Neill, we appreciate your indulgence, your presence here, and we will be awful glad to hear you.

STATEMENT OF CHARLES W. O'NEILL, PRESIDENT, STATE ASSOCIATION OF CONSERVATION DISTRICTS OF WASHINGTON

Mr. O'NEILL. Chairman Jones, I appreciate your coming.

I am Charles O'Neill. I am the president of the Washington Association of Conservation Districts, and I am a tree grower in the western side of the State.

As we enter the 1980's our greatest challenge will be to pursue in a responsible and aggressive manner the objectives of prudent use and development of our natural resources. Somewhere each day prime agricultural land is still being paved over. Soil is still eroded away, water is still over appropriated, misused or wasted and water quality is still degraded. Fish and wildlife are being harmed or destroyed. This path of destruction and recklessness cannot continue without severe impact on your economy and social well-being.

Hearings, task forces, academic studies, and so forth all point to a severity of this program and a need for positive action now.

In the State of Washington the 208 process has been identified, rather extensive areas, with severe water quality problems. Many of these problems result from the lack of proper soil and water resource management. In some of the irrigated areas more water is applied than is needed. This excess water erodes furrows and return flows carry sediment and nutrients to the water courses. In our dry cropland area, such as the Palouse, cropland commonly loses as much as 20 to 30 tons per year of ground, per acre. The estimated average sediment delivery to the Palouse River alone is 5.3 million tons, annually. This is from an SCS study of 1978.

We must stop such destruction trends now if we are to remain a viable economy and our social well being. We must improve and expand our soil water conservation efforts in education. We must continue to pursue identified research needs. We must develop new cost incentives or social incentives which will lead to prudent use of our natural resources on a long-term basis. Innovation is the key. One tool, one approach will not succeed. A spectrum of tools that can be focused on each problem must be developed. A highly visible aggressive conservation program is essential. Activities which stress proper resource management must form a foundation for these efforts. Implementing a costly single practice alone will not produce resources or protect them. The resources are complex and the continued proper management is essential. A band aid approach, then, will not solve the problem.

Our education efforts and incentive programs should focus on establishing a sound resource management philosophy among the users of these natural resources. The users must recognize the complex and intricate related nature of their resources. They will, then, also recognize that a system of management is needed, rather than individual practices.

With this in mind I suggest, for your consideration, a concept in sharing, cost sharing which has not been utilized before. I propose rather a cost sharing for application, rather than a cost sharing for application of individual practices a cost sharing based on levels of management. At the first level the basic cost share, let us say \$3 per acre per year, would be available for the farm operator on a cost share basis who is willing to enter into and carry out a basic land resource management plan which would include such things as crop varieties grown, sequences, crop residue, tillage, timing of farming, some of these things you have heard from the previous people. After sufficient time has passed, perhaps 2 or 3 years, and the farm operator has had time to gain confidence in both management, ability for the new con-

cepts and feasibility and practicality of these basic systems, the next level of management could be considered.

At the second level supporting practices for the enhancement of the level one management could be introduced into the system, with an accompanying higher cost share level, for instance, who knows, it could be \$6 per acre per year for supporting practices, could create or bring about such things as divided slope farming, strip cropping, terraces, grass, waterways, permanent vegetation cover.

Again, sufficient time is needed for acceptance of the supporting practices within the system.

With two levels of management in place, level 3 could, then, be considered. This would feature permanent seedings in critical areas which would serve to retire highly erosive class 4 to 6 lands and create other benefits such as wildlife habitats. It is estimated that from 4 to 7 years of cost sharing would be required to get the management level system applied and functioning. The management level concept, if considered favorably, would provide soil and water conservation and water conservation and water quality improvement.

In the State of Washington the conservation districts have accepted the 208 management agency responsibility for the water quality on the agricultural lands. This adds additional responsibility to a voluntary local agency with a full workload now. There is a need for funding to conservation districts to administer agricultural water quality implementation.

Gentlemen, we have come to a point where we need some help.

In summary, the key elements in applying resource management systems are higher levels of support for educational information expertise from the Cooperative Extension Service. Higher levels of support for quality technical assistance from the Soil Conservation Service. More financial support for the Agriculture Stabilization and Conservation Service and new support for the local conservation districts who direct and carry out the resource programs. All are vital members of a team and will bring about conservation on the land.

Gentlemen, thank you for your time.

Mr. JONES of Tennessee. Thank you, Mr. O'Neill, for a very, very good statement. Mr. Dave Wyckoff of Grandview, Wash., will be the next witness. We appreciate you being here.

STATEMENT OF DAVID W. WYCKOFF, FARMER, PROSSER, WASH.

Mr. WYCKOFF. Chairman Jones and Congressman Marlenee, thank you for the opportunity to present this testimony.

My name is Dave Wyckoff, I actually reside in Prosser, Wash., which falls in Benton County, Wash., and I farm with my family in the lower Yakima Valley on irrigated ground.

I have been requested to testify on conservation at this hearing at the request of the Benton County ASC Committee. My comments, however, are intended to represent my views and my family's views, who are likely representative of other farmers in our area.

We grow a number of different crops in our area and many of the crops we grow are very water intensive. Most of our irrigation is rural irrigation.

We utilize hand lines occasionally to incorporate herbicides and to apply light irrigation and, sometimes, in conjunction with waste water return systems.

The opportunity for soil erosion in our area is substantial. At this point, with your indulgence, I would digress from the rest of my prepared statement and ask that it be included in the record.

Mr. JONES of Tennessee. It shall be, without objection, included in the record.

Mr. WYCKOFF. In the interests of time, I would attempt to summarize my remaining remarks. All of them deal with money and I might itemize those for you.

First, under the ACP, I'm sure you have heard before that the amount of money under the ACP program needs to be increased annually for farmers.

The idea of \$3,500 assisting significantly for soil erosion for an individual farmer is helpful, but it doesn't carry the ball very far.

With the cost of inflation it is almost impossible to perform any practice for anywhere near \$3,500. The effect is that it simply encourages the farmer either to not do the practice or risk the potential of the cash flow disruption.

Second, I would suggest a modification in the rules and regulations of the ACP program be made, in the area of requiring any practice to be completed in 1 year and to be funded from that 1 year's maximum amount of funds for a farmer.

In short, because practices do cost much more than \$3,500 and are getting increasingly expensive to accomplish, objectives such as minimization of soil erosion and water conservation, it is very difficult to put in a practice in 1 year and not be allowed to attain funds from several years to cover the practice.

An example would be a pipe that costs \$9,000. The farmer cannot put only half of that pipe in, in 1 year, in many instances. He needs the whole pipe. Yet, he can apply only \$3,500 against that pipe.

He may nor may not have practices in subsequent years and yet subsequent years allocations of \$3,500 for that farmer are not available to him unless he were to go into the long-term agreement.

For reasons already indicated by previous witnesses, the long-term agreements have shortcomings and it's very difficult for a farmer to project what those are and what his needs are and, also, what his capacity for these capital improvements are going to be for several years in the future.

The additional money area I would like to touch upon is the 208 program. I think we face the fundamental question, the fundamental public question, of who is to pay for 208-type improvements?

I have been fortunate to participate in the development of the 208 plan for irrigated agriculture in Benton County.

It's made me aware of the importance of maintaining a careful balance between those who are primarily interested in providing for clean water, those who are primarily interested in environmental concerns, and those primarily interested in economic production of agricultural products.

In short, agriculture is being requested to respond to increasing public demands for a cleaner environment through cleaner water quality.

At the present time, that has, in our area at least, progressed only to the point of suspended particulate matter, but I'm sure in the future we will include nitrates, nitrites and other chemicals that are commonly applied to our ground.

In short, sometime in the future it is quite conceivable that no run-off would be allowed. This is fine and it can be accomplished. It's a very costly thing to do.

Unfortunately, the farmer is not in the position, as many of our other industries in this country, that have had these new public objectives placed upon them, to pass on that cost to the people they sell their products to.

Likewise, the farmer is frequently in a cash flow shortage, and to require that farmer to pay for the cost of a new public objective could result in serious economic disruption.

The point is simply to suggest that the ASCS, which in our area is a highly competent disbursement body for ACP funds, be allowed to disburse 208 funds and, likewise, that the ASC committees or subcommittees appointed by them, because of their well-rounded ability and their representation of farmers, be allowed to act as an oversight committee in the administration of the 208 plans.

That pretty much concludes my remarks on conservation.

I'm sorry that Mr. Jones is not here, but perhaps the record will show it. I would like to respond to his suggestion that we consider the idea of merging the Federal Land Bank and the production credit, the PCA, and the Bank of Cooperatives.

Without giving it a great deal of thought, it seems to me an idea well worth considering further. In particular, it might allow a better system of farm financing, which tends to ameliorate the problem of timing between short-term credit needs and long-term credit needs that the farmer annually meets.

As has been mentioned before at this hearing, farming is becoming increasingly capitalistic. The potential disruption of a farmer's cash flow from the need to fund these capital expenditures can be significant.

The lack of flexibility in short-term financing, in particular restraining this to 1 year, as is the custom with banks; more precisely to require total retirement of the operating line in a given year, is becoming increasingly difficult in farming, because of these capital expenditures.

Merging, as Mr. Jones has suggested, of the long-term and the short-term farm financing institutions, as he has suggested, can help to reduce this problem.

Thank you for your attention.

Mr. MARLENEE. Thank you, Mr. Wyckoff. It was well delivered and a good statement. As the chairman said, we will place your prepared statement in the record.

[The prepared statement of Mr. Wyckoff follows:]

PREPARED STATEMENT OF DAVID W. WYCKOFF, FARMER, PROSSER, WASH.

Gentlemen, my name is David W. Wyckoff. My address is Route No. 2676, Prosser, Wash. I farm with my family in the lower Yakima Valley on irrigated ground. We grow a number of different crops. Many of the crops we grow are

water intensive. Most of our irrigation is rill. We utilize hand lines occasionally to incorporate herbicides, to apply light irrigations and in conjunction with waste water return systems.

The purpose of my testimony is to discuss the ACP program as administered in Benton County and to discuss administration of 208 Water Quality funds. ACP program has been of great value in our area particularly because of the preponderance of rill irrigation and opportunity for significant soil erosion from irrigation water. A common annual planning function for farmers is to budget irrigation improvements to utilize ACP funds. These improvements have frequently been in the areas of replacing open headditches with pipe, installing drain pipes in place of open runoff and in installing waste water return systems.

To be more useful, improvements in the ACP program should be made in at least two monetary areas. First, the annual maximum amount of money available to each farmer should be increased. Inflation has increased the cost of projects significantly. On our farm, I can think of no piping improvement made in the last five years which cost less than \$6,000, well over the maximum amount of funds available to us. Most of our return systems cost from \$6,000 to \$10,000 per system. To lay even one half mile of 8" high pressure PVC pipe costs around \$9,000, such as we have recently done to utilize water from a Washington Department of Ecology well.

Available funds under ACP have actually declined despite inflation. Initially funds at \$500,000,000, the program has been reduced to a present \$190,000,000. More funds are essential—\$3,500 annually to farmers is not adequate to accomplish the purpose of the ACP.

Likewise, a revision in present ACP rules and regulations would be helpful. At present, an ACP practice must be completed in one year and can be funded only for that year. Because most practices cost the farmer much more than the maximum ACP funds available to him, only a portion of the practice is covered by ACP. Many of these practices must be done all at once as only a portion would not be useful. Likewise, the project may be one which was not foreseeable and not a part of a long term program for a complete farm. This results in either the farmer not proceeding with the project or in a cash flow disruption for the farmer. If he does proceed, a modification in the rules and regulations should be made to allow the farmer to use ACP funds from several years on a single practice.

I would also like to discuss the ASC's rule in administering the funding of the 208 program. The 208 program will primarily be successful if properly funded. In our county, the ASC was instrumental, through people appointed by it, in developing the 208 program. The committee is intimately familiar with it. Likewise, the ASCS in our county is staffed with highly competent and dedicated people who have proven their ability to disburse ACP funds. It would be of great value in assuring the success of the 208 program for fund disbursements to be made by the ASCS.

Similarly, development and administration of clean water practices should be done only through the close cooperation with the ASC committee. As indicated, the committee in our area has had to date important input in developing the program. Continuing administration of the 208 irrigated agriculture water quality management plan should be done with close oversight by the ASC committee.

This concludes my remarks. Thank you for your kind attention.

Mr. MARLENEE. Now, Mr. Don Thompson, from Moro, Oreg.

STATEMENT OF DON THOMPSON, FARMER, SHERMAN COUNTY, OREG.

Mr. THOMPSON. Congressman Marlenee, thank you for the opportunity you have given me to come here and talk with you about some of the ideas I have about conservation.

I am Don Thompson, a farmer from Sherman County in Oregon. I am also vice president of the Oregon Wheat Growers League. This is an organization that represents 9,000 wheat growers in Oregon.

I and my son raise wheat and barley in a dryland summerfallow area that at times have a severe erosion problem, mainly from water

runoff on unprotected slopes during the heavy precipitation in winter months.

This condition is further emphasized by frozen soil conditions.

I want to make two points with your subcommittee that are extremely important in any decisions your subcommittee may make in regard to conservation programs.

First, I want to emphasize the amount of conservation work that has been accomplished by farmers. Second, I would like to talk a little about conservation programs on farms that should be in the form of incentives rather than regulation.

I think this has been brought out by Chairman Jones. These are things he has been thinking about, also.

We have accomplished a lot in controlling erosion in Sherman County, Oreg. and I am proud of the work that has been done in Oregon.

Sherman County is a small county with 283,000 acres of nonirrigated cropland. We have very little irrigation in that area. Our average rainfall is 11 inches per year.

We have 4 million feet of terraces installed at this time and that's nearly 800 miles. We have 500 sediment dams and 400 acres of grass waterways.

Our local soil conservation district estimates this to be about 40 percent of the work that needs to be done in the county. We've done a lot but there is still a lot to be done.

Other counties in our area have made similar progress. One reason I think this has been possible has been a program that we have in Oregon with the Oregon Wheat Growers League and it's called the "Conservation Man of the Year Program."

We had a group of farmers that started this program in 1948. That was 31 years ago. They felt conservation was a problem so they started to do some work in this area.

A farmer is picked from each county raising wheat in the State. All these farmers are honored at our State convention and a State winner is chosen. Tours of all county winners are conducted following the tour, by a tour of the State winner the following year.

Farmers see the result of good conservation practices and respond by trying some practices on their own farm. Benefits from the conservation practices are then best sellers for the program. I am proud of the work that has been done and is being completed further at this time.

Now my second point. Help to implement conservation practices on farms should be in the form of incentives rather than regulation.

We feel farm program regulations that require a farmer to use certain practices before being eligible for program benefits would be inadvisable and very hard to administer.

The variations of weather, soil types, land ownership and cropping patterns make equitable decisions hard to make. Incentives in the way of cost shares for practices proven effective at the local level are a better way to get practices on the land and keep them there.

The agriculture conservation program has been an effective way to get this done in our area. We feel the county ASC committees

have administered the program in a very responsible manner and recommend that further programs be continued on the same basis.

Program administration can best be made at a level as close to the farmer as possible. There is a need for additional funding under the ACP program. Funding has remained in the neighborhood of \$190 million for many years.

In the 15 years I have been working on conservation projects, inflation has cut the amount of work that can be done for this fund in half.

In summary, farmers have accomplished a lot with cost-share money that is put together with a lot of their own time and money to control erosion. Incentives are much better than regulations.

Thank you.

Mr. JONES of Tennessee. Thank you, Don. You have a right to be proud of the work that has been done out there.

Jack DeWitt, a farmer from Waitsburg and I assume that's Waitsburg, Wash. Welcome to the stand.

STATEMENT OF JACK DEWITT, MANAGER, FOUNDATION FARM, INC., WAITSBURG, WASH.

Mr. DEWITT. My name is Jack DeWitt. I am manager of a 4,300-acre farming operation near Walla Walla, Wash., called the Foundation Farm, Inc.

Our main crops are dryland wheat and peas and about 20 percent of the acreage is irrigated. Most of the land lies in an 18- to 20-inch rainfall belt and is vulnerable to severe water erosion.

However, during my time at Foundation Farm, now going on 15 years, we have been able to keep soil losses at a minimum by a combination of practices which include, No. 1, installation of over 6 miles of waterways.

No. 2, dividing slopes into different crop sequences so that an entire slope is never vulnerable at the same time. No. 3, elimination of summer fallow from the rotation, so the soil works up dry and cloddy in the fall and is open and receptive to winter rains.

No. 4, limiting residue burning to grass fields only. No. 5, making minimal use of the moldboard plow, and maximum use of chisels and discs, so that crop residue will be left on the soil surface.

No. 6, seeding wheat early in the fall despite weed and disease problems that can result.

For many of these practices, we could have received several thousands of dollars in cost-share moneys over the past 15 years, but except for a few hundred dollars accepted during the 1960's, we have paid the full costs ourselves for several reasons.

One. I believe. is each farmer's personal responsibility to conserve his soil and cost is a flimsy excuse. Two, integrated conservation practices don't cost, they pay. And, three, I have Government redtape and would rather do it myself.

You may think at this point that my purpose here today is to call for an end to Government cost sharing, but that is not my purpose.

I am here because I am concerned about the slow rate at which con-

conservation technology is being applied in this county. Government cost sharing can provide the incentive to apply these practices.

In Walla Walla County, past ACP funds have been used to successfully promote trashy fallow practice. Now this practice is well established and payments are no longer made for this purpose.

Some of the practices now being emphasized and acres served in the past 2 years are as follows. Sod waterways, 3,186 acres; subsoiling, 360 acres; permanent grass seedings, 628 acres; stripcropping and divided slopes, 3,213 acres; terraces and diversions, 660 acres; conservation tillage, 9,178 acres.

This last item is especially significant. When a Government program stimulates a new tillage practice on nearly 10,000 acres, we are getting someplace. When these practices have become well established, a responsible county committee will shift funds to more intensive practices.

This type of promotional cost sharing should not only be continued, it should be pushed and expanded.

The alternative to cost sharing is involuntary application of conservation practices through the force of law. That route would meet fierce resistance from independent-minded farmers jealous of their constitutional property rights.

As far as is possible, conservation technology should be applied voluntarily and Government can provide the incentives to get the job done.

And cost sharing is not the only way in which Government should help. Adequate funds need to be provided to local SCS offices so that local research can be carried on, demonstration plots can be set up, education seminars conducted and adequate technical assistance provided to farmers.

Over 50 percent of the problem in getting conservation technology applied is educational, not economic. If farmers can be convinced the application of conservation practices will be economically beneficial, no further incentive will be needed.

Another way Government can help is to provide long-term loans for construction of waterways, catch-dams, terraces, et cetera. A mile of terrace costs over \$5,000. A mile of waterway over \$1,500. Financing such projects, even with cost sharing, can be a burden to many farmers.

Still another way to help is to provide long-term loans for machinery purchases. A few years ago, we had conditions which produced excessive straw growth in Walla Walla County.

Farmers who were used to working fields covered with 4,000 to 5,000 pounds of straw had to contend with 9,000 to 10,000 pounds.

Buying equipment to properly handle this much straw often meant an investment of \$15,000 to \$30,000. Rather than spend that kind of money for new equipment, many solved the problem with a book of matches.

Field burning, unfortunately, is one of the most erosion-prone practices one can apply in Walla Walla County.

For many years now ASCS has had a loan program to promote farm grain storage. I think it's time a similar program was instituted

to help farmers meet the long-term capital needs of applying conservation technology.

I would like to conclude with a few words about prolificatory Government bureaucracies. I have some mixed emotions about asking for Government incentives to apply conservation practices, because new or expanded programs invite a new layer of bureaucracy.

To discourage empire building, I strongly recommend that all incentive payments, including moneys from the Clear Water Act, ACP and any other conservation-oriented programs, be funneled through the existing ASCS bureaucracy.

Responsibility for practices specifications and technical assistance should remain with conservation experts, or in other words, the SCS.

I would also like to add, as a footnote, that tax moneys used for conservation promotion will benefit the general public as much or more than the recipient farmer. As an example, look to the history of agricultural production research.

Over the past several decades, the ARS and land-grant colleges have spent hundreds of millions of dollars on production research. The result has been improved cultural practices, laborsaving machinery, better seeds, more adequate crop nutrition, and more effective weed control.

These combined practices have increased yields drastically, at times producing price-depressing gluts.

The farmer has not been the chief beneficiary of this research. The primary benefits have been passed on to consumers in the form of practically inflation-free, raw-product prices. The savings to consumers amounts to billions of dollars per year. Public moneys spent now on conservation promotion will provide similar consumer benefits in years to come.

Properly cared for, our soils will remain productive for thousands of years to come. Neglected, their productivity will be gone in a couple of generations.

Thank you for this opportunity to express my views on conservation.

Mr. JONES of Tennessee. Thank you very much, Mr. DeWitt. We appreciate that.

Mr. Marlenee must leave us because he has a plane to catch and a long way to go. Ron, thank you so much for being here.

Mr. MARLENEE. Thank you for having the hearings out here, Mr. Chairman. This is kind of my reserve district and I appreciate your understanding and willingness to come out here. Thank you.

Mr. JONES of Tennessee. Have a good trip, Ron.

Our next witness is Mr. Eddie Johnson of the Washington Association of Wheat Growers of Wilbur, Wash.

STATEMENT OF EDDIE JOHNSON, FARMER, WILBUR, WASH.

Mr. JOHNSON. Mr. Chairman and subcommittee members, my name is Eddie Johnson and I am a farmer from Wilbur, Wash. I am presently serving as co-ecology chairman and representative for the Washington Association of Wheat Growers, Ritzville, Wash.

Washington State wheat growers feel there are several major issues concerning continuing conservation efforts that need to be resolved.

First, farm programs versus conservation programs. Historically, every time a Food and Agriculture Act is enacted and administered, the conservation-minded farmers have been doubly penalized for voluntarily retiring wheat-historied land to soil conservation practices.

Therefore, conservation-mined farmers that have voluntarily entered into these programs with or without the use of agriculture conservation program payments are being penalized under the new farm program's 3-year limitation.

The Washington Association of Wheat Growers urges the Secretary of Agriculture to confer with the Directors of the Environmental Protection Agency and the Soil Conservation Service in order to eliminate conflicts between farm programs and soil conservation programs and provide incentives for implementation of best management practices by landowners and operators that allows said landowners and operators to be compensated through positive incentives such as land tax credits, or tax credits for locally accepted conservation practices and the inclusion of wheat-historied land in the normal crop acres that have been retired to locally accepted conservation practices.

For example, 5 to 10 percent of the total farming operation could be included as NCA without penalty. If a person had 1,000 acres and 5 percent of those acres, he would be allowed 50 acres included in his NCA that would be good conservation measure.

WAWG, furthermore, recommends that the Director of Production Adjustment Division, ASCA, and USDA expand the eligibility for set-aside acreage to include any wheat-historied land voluntarily retired for established conservation reasons, regardless of retirement date and excluding soil bank.

Economics. In light of past and current agricultural budget cuts, it is evident that there is less technical assistance and funds for conservation programs.

For example, Lincoln County had funding prior to 1977 at approximately \$195,500. In 1978, those funds dropped to \$132,000 plus \$20,000 additional late in the year for a total of \$152,000 last year.

The county Agricultural Stabilization and Conservation Service Committee has been forced to determine which farmers would get funding for terraces, waterways, dams, et cetera.

I might add that because of the public awareness of 208 in this State, farmers have been made quite aware of the need for conservation and there has been a heavy demand for conservation practices by the farmers.

Conservation programs should provide funds for small-scale watershed projects and increased ACP annual funds to counties. Small watershed projects should be developed to help determine actual cost and benefit ratios to the farmers and the public.

WAWG requests that additional funds for technical personnel, increases for ACP and small watershed projects be provided.

Agricultural economic returns are critical since farmers do not enjoy or even benefit from a cost-plus basis such as industry does. Producers are unable to pass the cost of conservation abatement on to the consumer.

No. 3, local control of conservation programs. Farmers want continued local control of conservation programs. Farmers do not prefer

short-term or long-term conservation agreements, because of the uncertainty of new farm program administrations and farm economics.

Farmers need continued conservation support beyond the first initial cost share for such practices as dams and terraces, which have a present life of 7 to 10 years at which time they require updating maintenance.

Just recently, I spent \$1.25 a cubic yard to remove silt from behind one of my earthen dams. Originally, the dam was built with cost share money, but there are no provisions under current conservations programs for maintenance.

When farmers decided to incorporate conservation programs into their farming operation, they don't want a mile of red tape and 4 weeks delay for funding approval and design.

Farmers serving on local water quality committees have devoted many voluntary hours to developing a workable water quality management plan. It's time they should receive some compensation for their efforts.

Furthermore, it's high time the Government bureaucracy put together funds for additional conservation programs distributed through existing Government agencies.

No. 4, Research. WAWG recommends that additional research be done on the area of economic cost benefit data to the farmers and public, development of new agriculture chemicals, and new erosion techniques.

No. 5, Chemicals. Farmers need existing and new chemicals not only to produce effectively, but also to control soil erosion by reducing mechanical tillage. Chemicals used in combination with mechanical tillage can reduce soil erosion.

Chemicals used in the fall and spring can help to conserve moisture and delay mechanical tillage of the soil in the spring.

Chemicals used in the fall to kill cheat grass, et cetera, can also reduce soil pulverization prior to the seeding of winter wheat.

Yet, because of economics, farmers revert to mechanical tillage. WAWG urges that a cost-sharing program be developed for use of these proven chemicals, such as Roundup and Paraquate, that can replace mechanical tillage operations.

Implementation of soil conservation programs will require the continued and increased use of chemicals in farming operations. The EPA is currently in the process of eliminating many existing chemicals and preventing most new chemicals from being released.

WAWG recommends that the EPA recognize the inconsistency of their position on these matters and suggests they correct the problems so agriculture can meet the Clean Water Act, Public Law 92-500, section 208.

The Washington Association of Wheat Growers thanks you for giving us the opportunity to speak to you.

Mr. JONES of Tennessee. Thank you very much, Mr. Johnson, for a good statement.

Our last witness, as far as my record shows, is Mr. Glenn Dobbins of Cheney, Wash.

If there is anyone else who would like to have a statement or has a statement they would like to read, we will certainly take the time to listen.

There is no problem if you've got a prepared statement or something to say.

Mr. Dobbins, welcome and you may proceed.

**STATEMENT OF GLENN DOBBINS, FARMER, SPOKANE COUNTY,
WASH.**

Mr. DOBBINS. Mr. Chairman and members of the subcommittee my name is Glenn Dobbins. I live and farm with two sons in Spokane County here in the eastern part of the State of Washington.

I am a member of the Spokane County ASCS committee. I would like to interject here that Mr. Ed Froberg is the program specialist on the State ASCS committee.

I sincerely appreciate the opportunity you are providing farmers across the Nation to present testimony regarding their view on the ACP and conservation and that you recognize the importance of a good conservation program.

When the Conservation Act of 1936 was passed, it was funded at \$500 million and those dollars went a whole lot further than they do now. I feel the ACP should still be funded at that level or more, which today would be over \$1 billion.

The Nation has received an excellent return on its investment in agricultural conservation. The ACP has been a real success story and I feel a great majority of the Nation's farmers have demonstrated their willingness to carry out good soil and water conserving practices on the land.

But their job is never done. It is a continuing process but there is a limit to what farmers can and will do when faced with ever-increasing costs.

Some of the areas of concern to me are, No. 1, county and community committees should have more authority in establishing approved practices for their counties because they have a better view of the problems and how they could best be corrected.

No. 2, our concept of the ACP needs to be reexamined. In the past we have used a kind of bandaid approach to conservation problems when a major operation should have been performed.

I feel if there is a real erosion problem, for instance, enough money would be spent on the practice to correct the problem. This could mean doing away with the payment limitation.

If a control structure or whatever type project is needed to control the problem that will cost from \$20,000 on up, \$3,500 is just not realistic and provides very little incentive.

No. 3, a good conservation program cannot be funded on the present basis. You cannot carry out a good program when you don't know until the year is half gone how much money you will have to allocate or when you are faced with the possibility of no funds at all.

To get our conservation job done, we need in excess of \$1 billion a year and we need to know it is going to be available every year on a continuing basis.

Conservation of our natural resources is of tremendous importance to every man, woman, and child in the Nation whether they realize it or not.

I don't think we can waste any more time discussing whether or not we are going to have an ACP or if it will be funded to \$80 million or \$190 million, because that will not get the job done.

Conservation benefits everybody, therefore the costs should be shared. Farmers need cost sharing in realistic amounts and they need tax credits as an incentive to take marginal or erodible land out of production. We need money to help maintain practices, such as sediment retention structures and terraces.

As I drive around in Spokane County, I can see a lot of positive results of the ACP and I think we need to continue most of the practices we presently are using, but I also feel we need to zero in on the major problem areas and correct them and this takes a lot of money.

It has been suggested a trust fund be established to raise money for basic soil and water conservation practices and I would be in favor of this.

Again, I appreciate the opportunity to be here and express my views.

Mr. JONES of Tennessee. Thank you, Mr. Dobbins, very much.

Is there anyone else here? Have we overlooked anybody?

Mr. TATE. I would like to make some comments.

Mr. JONES of Tennessee. Yes, sir, come right on up.

Mr. TATE. Mr. Chairman, I did not prepare anything, because I did not know if I would be able to attend or if I would be exact as to what nature of the conservation hearing you were having.

STATEMENT OF GORDON TATE, FARMER, IDAHO

Mr. TATE. I am Gordon Tate and I have a farm across the line over in Idaho. I worked for 15 years with the Soil Conservation Service in eastern Washington and northern Idaho. Later on, I was supervisor of the soil conservation district and helped start the R.C. & D. project we have had in northern Idaho and eastern Washington.

There are several things I feel we need to emphasize in conservation work. We need to emphasize local control and particularly in ACP practices, where oftentime in our committees, we set up some practices we would like to use and receive some cost, but at the State level they were eliminated.

We need more assistance in field trials, where we can actually take a whole field on the farm and try out practices, particularly stubble mulching and this type of thing, on a field basis.

We need assistance in that type of thing, not only technical but some financial assistance and part of it may be in securing the necessary equipment to do the job.

We need a long range program such as has already been mentioned here, something like the Great Plains program. It is pretty hard to expect the farmer to start something without knowing what he's going to be able to get for it in the years to come.

We should definitely avoid the threat, as is being made under 208 of land use regulations. I would like to point out that any assistance, financial or otherwise, is repaid back to the people of this country in far greater amounts than the cost of it.

Many farmers spend a lot more money just on their own in trying to protect their land and their soil than they are ever receiving in any cost sharing practice.

I would like to suggest that funds should be administered through ASCS and the technical help should be considered through SCS.

Adequate funds should be provided. It's already been pointed out several times that we are not even scratching the surface on the funds, even as compared to what the intent was. Five hundred million dollars, as few years ago, might have done something, but now we don't even get that much assistance.

Every time cuts are made, the cuts are made strictly at the local level. The man that's out there helping to get conservation practices on the land is the first one that is let out. We don't make those cuts at the higher levels of our bureaucracy.

I would suggest that above all, we do not have any new agency. I think we have the setup to do it, if we can work out the projects and then give these agencies the assistance they need in carryout of the work.

It's a very important thing. As I also say, I have devoted many years to it. I am not presently associated with the district in any capacity but it's very dear to my heart and it's something that we absolutely must do for the welfare of our country. We have to protect our cropland base.

Thank you.

Mr. JONES of Tennessee. Thank you very much, Mr. Tate.

Does anyone else have a statement they would like to make or say anything at all in this regard? It's getting a little late to go into a lot of questioning.

I would like to summarize what's been said here and if there is any discussion, I would certainly entertain anything you would like to say.

Before I do that, I would like to tell you we have had hearings in Hutchinson, Kansas, and Aberdeen, South Dakota, and there much time was spent emphasizing the good that the Great Plains program has done. They were pleading for continuation of the Great Plains program.

Some of you have said the same thing this afternoon that was said, in that more control ought to be had over whether or not a program is disbanded, plowed up, or whether lands change ownership, if they should be allowed to disband the project that was on the land at that time.

Most of them were in favor of the same procedure you were here, that they would have to be kept under control. If they are good enough to start, they are good enough to keep.

The same thing was said there that has been said here this afternoon by several of you, that farmers want continued local control of the projects, but there is a definite need for long-term projects, not short-term projects.

I asked the question at both places as to whether or not, and I think the Great Plains program has done a great amount of good. I asked the question as to whether or not the ones who were participants in the Great Plains program today, and you know there are parts of

10 States there that participate; if they would be amenable to the idea of a national Great Plains program to be used in areas such as we are herein, where the project needed to be promoted or where it needed to be inaugurated.

Every one of them said, "Yes; we would be happy to see a national Great Plains program provided."

Of course, their program was not retarded in any way, which I could agree with.

I've given a great deal of thought personally and my staff has, and all of us have, to some sort of a conservation program that we can look forward to, not tomorrow, but next year or next year, sometime in the near future, when we can really put together something that will be fundamental and will be lasting.

We've been talking about the ideas of some self-support, because I agree with one of the gentlemen just a few moments ago, who said that it all can't come—Mr. DeWitt, I believe—that it all can't come from the Government and a lot of people are getting tired of a continued bureaucracy and so much of it.

I'm one of them who is fed up, too. But at the same time, I want my agricultural people to share as much as anybody else does in the bureaucracy. I don't want to see them cut any more than anybody else is.

We've been talking about tax credits, trust funds, and ideas like that, or some sort of an incentive program to encourage people to participate in a conservation program.

Here, that school is out, as far as just giveaway programs are concerned for everybody. We are not going to be able to get the type of conservation program in this country that we want through public funds.

We've got the only President in the United States, the only President we've had in recent years, who has advocated even an ACP program, much less to work for one and this subcommittee worked hard to try to get \$250 million and we did, through our subcommittee.

The full committee approved it, but the budget committee cut it back. That's just exactly what happens to a lot of these programs that are hard for a lot of people in the Congress to conceive and to agree on.

Not everybody like you and I and many other people engaged in agriculture realize just how difficult and how great a problem we face here in the future as far as the preservation of this land is concerned.

Somebody here this afternoon, right here in this room, said 20 tons of topsoil per acre per year is being lost and maybe he said 30 tons, I don't remember for sure.

But there are places in this country where there are 30 to 40 and 50 tons of topsoil per acre per year being lost, productive land, but it can't last forever and we've got the greatest opportunity we've ever had in my lifetime and I suspect in the history of this country to really put together a program that can be beneficial for future generations.

With the recognition of Red China and all the other markets we've got opening up to us today, we can produce no end. We've got a place to sell it now, and sell it at a worthwhile price, but we just simply

are not doing the job with our soils that we should be doing if we expect continued—if we expect to make money off the land for future generations. We are going to wear it out where there will be nothing left for it.

That's the history of many countries in the world and I would like to see us get it stopped some way or other.

We are going to continue hearings over the areas as far as both farm credit and conservation is concerned and we are not trying to write a conservation bill for this year. We are not even thinking of approaching the idea of trying to come up with something.

But we do welcome the testimony of all of you. We welcome the suggestions you will pass on to us from time to time, because we are looking at a problem that's so big and so important that it's going to take more than a small subcommittee on conservation credit to come up with all the answers.

So, we need your help and we want your help. We've got a dedicated group of people that work on that committee, on the staff, and we will try to put something together that will be worthwhile.

I realize that we've got enough agencies in the Agriculture Department to do the job, if we can just come forth with the right ideas.

Secretary Bergland has voiced a very very strong opinion about support for a program of this sort. Mr. Foley has and all the others have on the Senate side. They've done the same thing.

But, gentlemen and ladies, we've got to come forward with some ideas that we can sell to Congress and that we can afford. That goes for farm people, the people who live in States, the county governments and everybody else concerned.

I don't believe the Federal Government, at the Federal level, can carry the whole load.

Does anybody have any comment?

Mr. BARR. I would like to respond very briefly. State Representative Scott Barr.

I just simply wanted to respond on behalf of the people of not only this State, but there are people here from both Oregon and Idaho today and so we sincerely express our appreciation for your approach and your attitude and recognize your knowledge of the subject, that those of us in the room here today are so dedicated as you have demonstrated you are also, to this end, to our mutual end.

We feel so strongly about it, as you do, and I just couldn't help to think that it's so appropriate for someone to respond in appreciation.

If anyone else wanted to mention anything more technical or along those lines, I didn't want this to take the complexion of a shutoff, which sometimes it does, when you say that. I don't want that to happen either.

Mr. JONES of Tennessee. I appreciate what you've said very much. It is helpful. It's a challenging job. It's something that has got to be done by somebody. There is no doubt about it.

We have sat here and waited too long already. I'm so concerned about where we are going, because of the great breakout we've out in markets elsewhere and you can't stop a farmer from raising wheat or

soybeans or cotton or corn or anything else, when there's a good profit in it and you can't blame him for doing it, but there's got to be a way, just like the man—and that's the reason I questioned him so much about those peas and the wheat rotation—There's got to be a way to control erosion and at the same time be able to produce. We can do it some way or other and we've got such a varying amount of rainfall all over this United States of ours.

We have a lot more in my area than you have and it gets to be a real problem. I not only have an erosion problem, I have a drainage problem at times of the year. We all do, I guess.

Mr. BARR. I might ask, in all the research and activities you've held around over the area, what are people proposing and what is some of your thinking and your committee member's thinking about how we can get more local and area control, because we all know that when you get a national program, you start going downhill from there on, if it's administered from the top level and does not have the necessary flexibility at the local level, statewide, countywide, districtwide, right on down.

I would think if there is any one obstacle that needs to be overcome and be a major part of your new program, if I might put it that way, for the future, that might be considered the one big thing.

Mr. JONES of Tennessee. I think you are exactly right. There's no doubt about it. You've got to start at the top to formulate the program, in order for it to simmer on down to the local level, but by all means, as big as this United States is, you cannot sit in Washington, D.C., and formulate a program that will work in every county in the United States of America.

I think that's one of the things that's uppermost in our minds and the minds of the people we do talk to out in the area and that is whatever is done, there's got to be enough flexibility in it that it's going to become a local program.

Mr. BARR. But it's got to have some authority. If they don't have the authority, it just doesn't—

Mr. JONES of Tennessee. The truth of the matter is, on some of our programs today, we have more local authority than we are using and we are being given authority to use from a State level standpoint.

I can cite in ASCS a number of programs and a number of authorities that could be delegated to the county committee if the State committee would do it, but they won't always do that.

Mr. BARR. And you are thinking in the ASCS?

Mr. JONES of Tennessee. No, I just gave that as an example. But someone has said today here, that we've got enough agricultural agencies to do this job and I agree.

But I think the technical work of any sort of a conservation program must be done by SCS. There is no doubt about that. They've got more expertise than anybody in the country, unless it's the Corps of Engineers and the Corps of Engineers couldn't do much of a job on a farm.

They might do it on channelization of a river, but they can't on a farm. Then from there, I think ASCS has got to administer these programs. I think the two together can do the job.

Mr. BARR. Politically, I guess it has to be this way, too.

Mr. JONES of Tennessee. I suppose it does. I don't know. There may be some other answers. Let me ask these fellows over here with the staff. They've been to everything I've been to.

Bob, do you and Wayne want to add anything to that? Is that about right? Isn't that the thinking of the majority of the people that the technical knowhow comes from SCS without a doubt? They've got more than anybody has? They haven't got enough help and, fellows, I'm telling you there is not much chance of increasing this personnel right now. They've got an awful tight string on the personnel ceilings in nearly all of them. ASCS, SCS, FmHA and all of them.

I don't look for much relief there and I'm not sure there ought to be. If they had to run for their job every 2 years, like I have to run for mine, they would work harder anyway.

Bob, have I covered it pretty good? Some incentives have been trusts funds. Some of them tax credits. Some have been and I don't want to get into it this afternoon, because I'm not sure I think much of it, anyway it is to give some advantage to some of those participants on the price support basis.

I'm not sure it could be administered in the first place. Yes, sir.

Mr. RIGBY. Then, Mr. Chairman, you and others have alluded to the fact the whole country is benefited by some of these projects.

I would like to say that I'm not a real big producer in a lot of things, but when my radishes come on. I notice in the market place they sell for somewhere near two bunches for 49 cents; when other farmers and myself start putting out local radishes on the market, I see they are down to three bunches for 29 and that's a great savings, over half of what they have been paying for those local radishes and the same happens with sweet corn, cucumbers and other small vegetables the public has to buy.

So, I might say I'm surrounded by urban sprawl. I could sell out for \$30,000 to \$40,000 an acres, but the people come to my place and throw the produce away on a lot of the things, peaches and corn I don't really have to sell.

I think the savings to the community surrounding me is more than what I've ever received in the small ACP projects I've been helped twice with in the past 15 years.

Yet those practices have enabled me to put my ground under sprinkling and raise more radishes and more green onions and more cucumbers per acre than I was previously doing and that was just one aspect.

But, the water savings. I had to come around a very sandy mountain at quite a distance to bring that water under pressure to my farm. It had been coming in dirt ditches that not only used the water but created swampy areas down below and it created problems for my neighbors.

Now by reducing that swamp and that seepage, my neighbors enjoy produce at a very much smaller cost than they would have.

Mr. JONES of Tennessee. Did you say you live in a big dairy section?

Mr. RIGBY. Yes, sir, we have quite, northern Utah is quite a big dairy section.

Mr. JONES of Tennessee. How large is your operation?

Mr. RIGBY. I have 100 acres, but then you grow radishes and green onions and stuff like that, it's a back bending process and one acre is enough if you are doing it alone.

But we do have some 100, 200, and 500-count dairy herds in northern Utah.

Mr. JONES of Tennessee. I was very much interested in what you had to say about the control of the runoff there, because I am aware of the fact that is almost an EPA requirement today, that the environment must be controlled in that regard.

It's a very expensive operation.

Mr. RIGBY. Very expensive and the farmer has little return from that, except—

Mr. JONES of Tennessee. One question I would like to ask you, are you in any position to be the recipient of any of that deposit or not?

Mr. RIGBY. No; I am not.

Mr. JONES of Tennessee. Is it being used? Is the collective disposal being used for any productive purpose?

Mr. RIGBY. You mean the manure?

Mr. JONES of Tennessee. Yes, sir.

Mr. RIGBY. Yes, sir, this is spread out on the ground and normally this farmer would probably spread a lot of that out on his ground anyway, but the only thing is now, he's able to do it when he should do it and at the proper time.

Mr. JONES of Tennessee. And he collects the runoff, too?

Mr. RIGBY. The water runoff is not run into ponds and streams.

Mr. JONES of Tennessee. It prevents pollution.

Mr. RIGBY. This is the reason we would like to see the farmers of Utah—the ASCS program is very effective.

Mr. JONES of Tennessee. Very good. We certainly appreciate all of the contribution that's been made today and I want to say I've enjoyed my visit to Spokane and we will look forward to doing this again sometime.

The meeting is adjourned.

[Whereupon, the subcommittee recessed at 4:45 o'clock p.m. and the hearing was closed.]

[Additional material submitted follows:]

STATEMENT OF M. H. CORBIN, EXPORT SALES MANAGER, WENOKA SALES

Mr. Chairman and members of the committee: My name is M. H. Corbin, Export Sales Manager of Wenoka Sales. We are exclusive agents for nine packing warehouses who belong to the Wenatchee-Okanogan Cooperative Federation. These warehouses will normally pack around five million cartons apples and 750,000 to a million cartons pears.

The Wenoka Federation was formed in 1922 and has always been active and very interested in the export business. We will export around 300,000 to 400,000 cartons each season. It has actively tried to increase its export business by seeking new markets and doing everything possible to increase shipments to existing markets, as it feels this is necessary to improve returns to growers and at the same time help in the balance of payments situation.

Under these circumstances, it recommends that the Farm Credit Act be amended so that the Farm Credit Bank, with whom we have done business for many years, can participate in the expected increase in export sales by handling letters of credit or other funds involved in the transaction of these sales.

STATEMENT OF M. J. CARTER, SPOKANE BANK FOR COOPERATIVES

Mr. Chairman and Members of the Committee...

My name is M. J. Carter. I am president of the Spokane Bank for Cooperatives, Spokane, Washington. The Bank serves an area of five states - Oregon, Washington, Idaho, Montana and Alaska. This area is the Twelfth Farm Credit District. The Bank is an integral part of the Farm Credit System, including the Federal Land Banks and the Federal Intermediate Credit Banks. I appreciate your courtesy in permitting me to present testimony concerning House of Representatives Bill HR-4782 proposing amendments to the existing Farm Credit Act. My emphasis will be on the proposed amendment to lower the requirement for farmer membership in cooperatives eligible to borrow from the Banks for Cooperatives. Presently the requirement is 80% farmer members for cooperatives, except rural utilities and the requirement for those is 70% farmer membership. The proposal is to lower the percentage for all associations to 60%.

At the outset, permit me to observe that concerns are expressed relating to this proposal primarily in two areas. First, that farmer control of management of such associations may be eroded by lowering the percentage; and second, that expansion of market for the banks would enable the banks to lend to customers beyond the intended market for the banks to serve and also the banks would become competitors in markets now adequately served. As the discussion is developed these concerns will be kept in focus.

nonfarmers that become members do member business that aids in meeting the company requirement of doing more business with members than nonmembers.

The Spokane Bank for Cooperatives, on August 1, 1979, served 246 borrowing cooperatives; of these, 81 were classified as farm supply companies. We have selected from this group those associations that, if present population trends in rural areas continue, might have eligibility problems in the next decade. In our analysis, 35 companies or 19% of present supply company borrowers are in this category. We further conclude that eleven will not have a problem, eight are now marginal and 16 companies will not qualify at the end of 10 years. Interestingly, voting control is held by farmers in each of the companies. The lowest percentage of farmer voting members is 82% and 19 of the companies have 100% farmer voting requirements. The problem arises as stated above in member vs. nonmember business. Nine of the companies have a member business percentage from 51% to 59%, 7 from 60% to 69% and the remaining 19 from 70% to 90% member business. In the same areas there are three existing companies that have recently applied for financing but are ineligible because the 50% member business requirement cannot be met, but the need remains for farmers in the areas to have the service.

The 16 companies which we estimate will become ineligible in the next decade now have gross sales of \$73,500,000 and a voting membership of 37,000.

These companies are generally located in areas of small farms and relatively high density population. It is to the benefit of these rural cooperative companies to continue a volume of business that will keep the companies profitable to the benefit of farmers and their neighbors who are rural residents. The reduction of voting percentage from 80% to 60% would still provide for farmer voting control of the businesses.

Generally, the accommodation here would be to those companies now doing business with the cooperative banks and those farmer controlled cooperatives that could qualify if membership qualification could be lowered to 60%. Alternate financing would be provided by conventional commercial banking sources at generally higher rates because of their broader services and usual limitations regarding term and facility financing which do not meet the needs of conventional term loan requirements. All of these companies are now commercial bank customers for other than lending services and several do short term financing with commercial banks.

Rural cooperative utility companies are a service area for the Banks for Cooperatives. You may recall that prior to the existing 1971 Farm Credit Act the requirement for eligibility to borrow from Banks for Cooperatives was that "substantially all" of the voting membership had to be farmers. This limitation had existed for many years and in 1971 was changed to 80% for conventional farmer cooperative companies and 70% for rural electric companies. It was recognized at that time that these rural electric utilities had characteristics

different from the conventional companies. For example, their charter requires that they serve all users in the established area desiring service, and that area could and generally does include smaller communities of nonfarmers, industrial installations, temporary government construction projects, concentrated vacation home areas, etc.

The principal source of borrowed funds for these companies was the Rural Electric Administration. Amendments to that Act in the early '70's changed somewhat the criteria for availability of funds from the Rural Electric Administration. Included in the changes were the creation of an insured loan program, and in addition, the condition that those companies that did not qualify for the special REC rate obtain up to 30% of their financing from non Rural Electric Administration sources. Power Supply Systems (Generating and Transmission Cooperatives) must obtain all of their financing from non Rural Electric Administration sources; however, there is a guarantee program for term financing. Most long-term financing for these companies has recently been provided by the Federal Financing Bank. Short term and interim construction loans are provided by the Banks for Cooperatives and other sources including the Rural Utilities Cooperative Financing Corporation.

In the five states of the Twelfth Farm Credit District, there are at present 114 rural utility companies, including 89 rural electric cooperatives and 25 known cooperative rural telephone

companies. Following the change in the Rural Electric Administration Act the Spokane Bank started offering its service to rural utility companies. Since that time, commitments or loans to 20 of these companies in the amount of \$28 million have been made. Loans outstanding amount to about \$3 million. Following the same procedure of analysis as with the supply companies, we find that of the 114 existing rural utility cooperatives, those meeting the present lending requirements of the Cooperative Banks would be 68. If the same rural population trends continued, only 37 are estimated to be eligible at the end of the next decade. However, if the voting percentage were lowered to 60%, 85 of these companies appear to be eligible as prospective borrowers through the next decade. All users of rural electric companies are members of the association and the member vs nonmember requirement in these cases is not an issue. The eligibility determination would be primarily one of farmer membership and those rural electrics serving over 40% nonfarmers would still be ineligible. Other sources of financing for these companies are primarily from the Rural Electric Administration and the Rural Utilities Cooperative Financing Corporation.

As indicated earlier, even with the 60% voting requirement change not all rural utilities, but 85 of the 114 companies, are estimated to be eligible to borrow from the cooperative banks if all chose to use our financing services. Under present voting requirements, 20 of the estimated 68 eligible companies now use the cooperative bank services. Only one of

these companies does all of its financing with the Bank for Cooperatives. All of the others have additional credit lines with the Rural Utilities Cooperative Financing Corporation, the Rural Electric Administration or the Rural Telephone Bank. The Bank for Cooperatives in the Twelfth District sees its role as an opportunity for these companies to have a competitive source of credit which the companies may or may not use depending on quality of service and cost of financing.

It is my view that changing the farmer member voting requirement would be of substantial benefit to the agricultural community generally and specifically to the cooperative organizations serving that community.

STATEMENT OF DON E. HAYES, WICHITA BANK FOR COOPERATIVES

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, I am Don E. Hayes, Assistant Vice President of Export Sales of Union Equity Co-Operative Exchange (hereinafter referred to as Union Equity). My present responsibilities with Union Equity make it necessary for me to be in contact each day with foreign buyers desiring to purchase large quantities of farmer-originated grain for export. Earlier responsibilities during my tenure with Union Equity as Assistant Treasurer, Financial and Statistical Analysis, involved daily participation in the transfer of the funds initiated by the sale of these commodities and required close contact and co-operation with the Farm Credit System through the Wichita Bank for Co-Operatives.

Union Equity is a federated regional grain co-operative organized under the Co-Operative Law of the State of Oklahoma 1937, and in accordance with the Capper-Volstead Act. As a regional co-operative, Union Equity has 292 member elevator co-operatives, representing a total of 575 country elevators operating in Texas, Oklahoma, Kansas, Colorado, Nebraska, Arkansas, Wyoming and Missouri. Union Equity is owned by the producers of agricultural commodities who are members of the member elevator organizations in the eight states named above. At Enid, Union Equity has elevators totaling 50,000,000 bushels storage capacity; at Fort Worth, Texas, storage capacity of 8,500,000 bushels; and an export elevator at Houston, Texas, with storage capacity of 8,500,000 bushels. I appreciate this opportunity to present Union Equity's views concerning HR 4782, the Farm Credit Act Amendments of 1979.

The Farm Credit System provides approximately \$50 billion, or roughly one-third of the nation's total agriculture credit. Union Equity looks to the Farm Credit System, through our district bank for co-operatives at

Wichita, Kansas, to finance the major portion of our business operations. In 1978, Union Equity exported 177,000,000 bushels of grain through our elevator at Houston. This included wheat representing 27% of the Hard Red Winter Wheat that left the United States during 1978. To finance the accumulation of this volume of grain for export requires access to a large line of credit. At present, we are utilizing 50 to 70% of this line of credit, depending on the quantity of grain awaiting export that we are required to finance.

Union Equity has \$7,290,000 of membership stock in the Wichita Bank for Co-Operatives, and as a major owner-stockholder of the Bank, we are committed to the Farm Credit System of agriculture credit. As a major exporter of wheat, Union Equity is vitally interested in the export financing capability the Farm Credit Act Amendments of 1979 would provide our bank for co-operatives.

I have listed below some of the proposed export financing provisions of the Farm Credit Act Amendments of 1979, and stated reasons why these proposed provisions would greatly facilitate the financing transactions of borrowing exporting co-operatives, thus enhancing the opportunity of United States farmers and their co-operatives to expand their sales of farm products abroad.

1. Allow banks for co-operatives to make deposits in foreign banks to expedite payments and collections for export transactions.

The payment terms stipulated in many grain sales to foreign countries is by cash transfer to seller against presentation of shipping documents at the buyer's foreign bank. If banks for co-operatives had correspondent bank deposit and collection privileges as the Farm Credit Act Amendments of 1979 provide, and could said documents be traced and controlled through banking

channels, payment delays could be shortened, since immediate payment could be made through the system, rather than necessitating the co-operative exporter to be plagued by delays caused by the mails, checks, or other normal transfers of funds. Since one average cargo of wheat at current market values amounts to approximately \$4,600,000.00, and with interest cost at a rate of 10.9%, each day of delay saved would mean an approximate savings of \$1,400.00 to the co-operative exporter and ultimately, to the United States farmer. Also, the privilege of correspondent payments and collection deposits would provide the exporter some degree of risk protection, in that the negotiable documents involved in the sale could remain in competent banking hands until payment was actually transferred to the bank for co-operative's account. The Farm Credit Act Amendments of 1979, in authorizing banks for co-operatives to make deposits in foreign banks for payments and collections, would also make it possible and expedite procedures for co-operative banks to open bid and performance bonds, which are required on many foreign sales. These bid and performance bonds could be directly opened through foreign banks, rather than with working arrangements through private banking institutions as is the case presently, thus minimizing delays in the opening of these credits and thus enhancing our opportunities to participate in the tenders, and thereby increase our outlets for the direct sale of U.S. farmer-owned grain.

2. Authorize bank for co-operatives to hold credit balances from borrowers and other banks to more efficiently handle the transfer of funds.

As I have noted in my opening remarks, the United States grain export business requires a very large amount of credit financing to cover the purchasing costs, storage charges, and interest necessary to carry the co-operative exporter until the sale is made, the vessel is loaded, and the final payment transaction is completed. As most export sales are made from two to six months in advance of the delivery date, these financing charges are necessary, even though it is our desire to stop them at the earliest possible moment. If the Farm Credit Act Amendments of 1979 are ratified, they would allow banks for co-operatives to be placed on par with other private banks, especially in the area of monetary transfer, and would make them a more integral part of the United States monetary system. With the authority of these amendments, a major portion of the cash transactions of our export sales would then be directly credited to our bank for co-operatives from the originating bank, thus enabling us to pay off our borrowed principle and stop our interest expense at the earliest possible moment. The result: a net saving to the co-operative exporter and his stockholder, the American farmer. As a case in point: many payments under credits originated even in United States private banks may be channelled through two or more different banks prior to our receipt of the funds, and incurs additional interest expense, particularly on weekend payments, in clearinghouse funds. We have found that, since the present Farm Credit Act does not allow banks for co-operatives to hold credit balances from borrowers and other banks to more efficiently handle the transfer of these funds, it is much quicker, easier, and with surety of

transfer that we have these funds placed into a correspondent bank of our smaller private bank in Enid, Oklahoma, at the first possible moment. We then, in turn, wire these funds back out through the Federal Reserve system to our bank for co-operatives. This long circle of transfer, therefore, would not be necessary, provided these amendments are allowed to pass.

3. Authorize bank for co-operatives to buy and sell bankers acceptances, which are short-term financial obligations particularly suited for export transactions.

As Union Equity is engaged in the marketing, storage and exporting of grain for our member-owners, and since bankers acceptances are short-term, negotiable time drafts to finance exports, imports, shipments and storage of staple goods, we feel banks for co-operatives should be allowed to take part in purchasing these acceptances in the same manner as other private banking institutions in the United States. It is the desire of Union Equity to seek the best financing avenues available at the lowest costs possible. It is with this thought in mind that we have become a major stockholder of the Wichita Bank for Co-Operatives and are committed to the Farm Credit System of agriculture credit. However, we have found that several times in the past few years, short-term funds in the form of bankers acceptances have been made available to us from private banks with less cost than the posted rate at that time from the Farm Credit System, thus making it necessary for us to use that avenue of credit. This authorization, which the Farm Credit Act Amendments of 1979 provide, would make available this type of financing through the Farm Credit System.

4. Purchase of time drafts payable by foreign buyers of agricultural products.

In the export market it is becoming more and more common to find foreign buyers desiring to purchase quantities of grain on credit for periods usually 60 to 180 days. It is at this point that co-operative exporters usually find themselves in a quandry as to how to provide the adequate financing needed in order to make the sale. Usually, we have only two choices: one is to carry that country for the entire 180 days ourselves, on open account, and due to the risks involved and the other financing needs necessary against our open line of credit, we either refrain from making the sale, or we must turn to a private bank for their help in purchasing the time draft payable by the foreign bank in 180 days. If this same opportunity of purchase of the time draft were made available through the Farm Credit System, exporting co-operatives would be much more enticed to take advantage of this type of credit sales, knowing the credit furnished was supported by their bank for co-operatives, and that we could safely figure on a competitive discount rate. For example: the Governments of Chile and Peru, who accounted for approximately 6.4% of the total Hard Winter Wheat exported from the United States in the 1978-79 exporting year, used this type of credit financing to some extent.

5. Allowing banks for co-operatives to engage in foreign currency exchanges for the benefit of export co-operatives.

This provision would allow banks for co-operatives to provide some degree of risk protection against rapid fluctuations in monetary exchange rates that might occur between the original

sale date and the date of payment, provided the terms of the sale stipulate that payment is to be made in a buyer's own currency. Following this procedure, co-operative exporters would be able to leave the currency hedging in the hands of their own banks, thus striving to minimize costs for the benefit of the primary participant, the United States farmer. Recently, we have seen one country, Colombia, hold a wheat tender and purchase in their own currency.

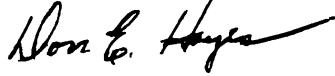
6. Allow bank for co-operatives to make loans to associated parties where there will be substantial benefits to exporting co-operatives.

The adoption of this provision of the Farm Credit Act Amendments of 1979 would possibly promote additional export sales to countries desiring to buy from a co-operative exporter on credit terms. This financing provision would allow the bank for co-operatives to make the determination of the credit-worthiness of the foreign buyer; handle all repayment schedules, insurance risks, and other financing details; then instructing the exporting co-operative that credit terms were arranged. Not only would sales on credit terms such as this possibly return a slightly larger gross margin of profit, but it would at least allow the co-operative exporter to have the opportunity to competitively offer in the world market in order to try to make the sale. Even though we have not seen any grain sales made extending credit of this type, we have seen a few inquiries. This provision affords a good amount of potential for future sales expansion.

After reviewing the export financing portion of the proposed Farm Credit Act Amendments of 1979, it is apparent that the additional methods of financing and payment flexibilities offered thereunder will greatly enhance the opportunity for Union Equity and other export co-operatives as we enter more freely and competitively into world markets. Our knowing also that the Farm Credit System now has the capabilities to meet these financing needs will provide additional incentives as we strive to increase our export grain sales abroad for the ultimate benefit of our member-producers, the American farmer.

I appreciate this opportunity to express the views of Union Equity regarding this Act before this subcommittee today. I would be pleased to respond to any questions.

Respectfully submitted,



Don E. Hayes
 Assistant Vice President
 Export Sales
 Union Equity Co-Operative Exchange

STATEMENT OF
C. W. S. HORNE
On behalf of the
FEDERAL LAND BANK OF COLUMBIA
and the
FEDERAL INTERMEDIATE CREDIT BANK OF COLUMBIA

Mr. Chairman, and members of the subcommittee, I am C. W. S. Horne, President of the Federal Land Bank of Columbia and of the Federal Intermediate Credit Bank of Columbia. These two banks along with the Columbia Bank for Cooperatives are the Farm Credit Banks of the Third Farm Credit District. We serve the farmers, ranchers and aquatic producers of the Carolinas, Georgia and Florida. The combined loans outstanding of the banks in the Third Farm Credit District are in excess of 5- $\frac{1}{4}$ billion dollars, being part of the approximately 50 billion dollars provided by the Farm Credit System nationwide. My objective is to share with you our banks' view concerning HR-4782, known as the Farm Credit Act Amendments of 1979. While I am directing most of my remarks at three specific amendments before you concerning the aquatic industry, I would like to take this opportunity to endorse the entire bill that is before the Congress. It would be repetitious to comment on what others have detailed for you and I would only add that I fully support and wholeheartedly recommend favorable consideration of the entire bill.

While the three amendments are directed primarily at the agricultural and aquatic communities, I believe they will have a direct and beneficial impact on our country. These proposals which, for convenience, have been numbered items 11, 12 and 13 in our working papers, are Sections 203 and 205, Section 305 and

Sections 102, 103, 105, 107, 108 and 211, respectively, of the Farm Credit Act Amendments of 1979 bill. We have aquatic industry in each of the Carolinas, Georgia and Florida.

Nationwide, of the twelve Farm Credit Districts, six serve one or more states with coastal areas. This legislation therefore will have a direct impact upon half of the Farm Credit System.

The aquatic industry is undergoing change. There are many reasons one of which was extending the territorial waters to 200 miles. Another, the Congress expanded the role of the National Marine Fisheries Institute. We have ready a tentative memorandum of understanding with the NMFI, and we make some loans which are guaranteed by the NMFI. We expect to continue to utilize this guarantee. The United States is a net importer of fish and marine products at the present time. With the help of government policy, we hope that one change in the coming years will be to become a net exporter. If the aquatic industry should accomplish this, all Americans will benefit as they now benefit from the favorable balance of trade of agricultural products. We are not so presumptuous as to maintain we are responsible (the American farmer deserves that accolade) however, the Farm Credit System has made its contribution to agriculture and will likewise assist the aquatic industry.

Aquatic loan authority was given the Farm Credit System by Congress upon passage of the Farm-Credit Act of 1971, Public Law 92-181.

Production Credit Associations were limited by that Act to maximum loan maturity terms of seven years. While this seven year limitation worked well in many areas, it became readily apparent that newer, better equipped vessels, so as to utilize the 200 mile territorial waters, needed financing over a longer term. In 1978, the Congress passed the Allen-Weaver Act, Public Law 95-443, which increased the seven year limitation to a maximum fifteen years for aquatic loans. Thus, Congress has enabled many fishermen and producers of aquatic products to obtain credit over a more reasonable and suitable period of time.

In our district, aquatic loans by Production Credit Associations have increased from less than \$5,000,000 in 1974 to over \$38,000,000 at the present time. Projections indicate a loan volume of \$120,000,000 by 1983.

We feel that the aquatic industry should be on a par with the agricultural community. We feel aquatic harvesters and producers should be entitled to not only the availability of fifteen year loans for vessels, but also entitled to all services provided by the three classes of banks in our system. Proposals 11, 12 and 13 affecting, respectively, Federal Intermediate Credit Banks, the Banks for Cooperatives and Federal Land Banks, are submitted to you to accomplish this purpose.

Section 203, called Proposal 11, of the Farm Credit Act Amendments of 1979, would authorize Federal Intermediate Credit

Banks to discount aquatic loans from financing institutions other than Production Credit Associations. We call other financial institutions OFIs. Section 2.3 of the Farm Credit Act of 1971, Public Law 92-181, authorizes discounting agricultural loans made by OFIs, but not aquatic loans. We propose that aquatic loans by OFIs be discounted by the Federal Intermediate Credit Banks as a service to agriculture and to aquatic communities. Farm Credit has an overall commitment to serve this important segment of our economy. This method of financing could fill gaps where Production Credit Associations are not able to fully meet the needs of aquatic borrowers. In some instances, Production Credit Associations lack offices convenient to coastal areas. Our aquatic borrowers may have to travel further to arrange financing. The public may be better served in such instances through OFI discounting.

Proposal 12 is found in Section 305 of the proposed Farm Credit Amendments. This amendment would make clear that cooperatives which engage solely in aquatic business would be fully eligible to borrow from Banks for Cooperatives. This amendment is technical in nature and does not change the substance of existing provisions of the Farm Credit Act of 1971. Banks for Cooperatives are, by reason of their expertise in dealing with cooperative enterprises, in an excellent position to serve this segment of the aquatic industry.

The third amendment, Proposal 13, I wish to discuss would extend the lending authority of the Federal Land Banks to make loans, secured by first liens on real estate, to commercial fishermen. This would enable aquatic producers and harvesters to obtain long term financing of their facilities. Here again we feel aquatic borrowers are entitled to similar treatment as agricultural borrowers. Many producers own, or have plans to own, processing, storage and docking facilities. The structures have long, useful lives and would merit long term financing. The need for capital for expansion of such facilities has increased recently. For example, we have found that fish formerly considered as trash fish are now being processed and marketed. Much of this type catch is sold on the export market, which could result in a positive contribution to our foreign trade position.

In conclusion, I submit that this is needed and beneficial legislation. The public interest will be well served by passage of this bill.

STATEMENT OF KENNETH P. KRUEGER, SPOKANE BANK FOR COOPERATIVES

Mr. Chairman and members of the committee...

My name is Kenneth P. Krueger. I am Vice President of the Spokane Bank for Cooperatives in charge of Credit and New Business Development. I appreciate this opportunity to present testimony concerning HR 4782 proposing amendments to the Farm Credit Act.

The Bank provides long- and short-term funds and financially related services to approximately 250 cooperatives in the states of Oregon, Washington, Idaho, Montana, and Alaska. Because the Bank works only with agricultural and aquatic cooperatives, its staff has developed a high level of expertise in the financial operation of this type of business. The Bank understands the philosophies, capitalization requirements, membership restrictions, and operating problems that are peculiar to cooperatives. This specialization allows the Bank to be the best and sometimes the only source of advice and assistance to cooperatives when they are considering changes in their equity structure, funds flow analysis, evaluation of market alternatives, industry comparisons or cooperative related issues. The Bank is committed to be responsive to the credit needs of its borrowers and to provide a full range of credit and financially related services on a sound, constructive and efficient basis.

As owners of the System, the Banks' borrowers have periodically requested changes in the services provided by the Banks to

adapt to changing situations. Such is the case with their request for the Banks to now provide export financing services. With exception of the grain trade, exporting of cooperative commodities in the Northwest has been relatively small in the past. However, because of the Northwest's proximity to the Far East markets, companies are becoming increasingly aware of the potential of foreign sales for many Northwest products. Presently, 28 borrowers of the Bank export products including grain, pea seed, apples, cherries, pears, prunes, salmon, hops, grass seed, and beans. In almost all cases, these cooperatives have indicated interest in expanding their export sales. A number of companies, including cooperatives selling fruits, vegetables and poultry have indicated a desire to also begin to develop an export program, but have sighted reasons such as lack of market information, unfamiliarity with exporting procedures, lack of expertise in documentation, lack of credit insurance or other reasons for failing to have taken this step in the past. The list of cooperatives desiring to do more exporting include large cooperatives as well as many small cooperatives. Some have felt the risk of such sales would be too great and have been unaware that there are methods to reduce that risk.

They would like the Banks for Cooperatives to be in a position to advise them on the risks involved and to be able to provide methods or insurance to help assure collections. Insurance programs could be made available to guarantee payment for sales to foreign buyers in cases where the seller had no

specific knowledge of the credibility of the buyer or was unwilling to take the risk associated with such a sale. Insurance is also available against political risk or other losses associated with breach of contract. These various insurance coverages could be obtained through the Export/Import Bank under a blanket policy, which would be less costly to the exporting cooperative than obtaining insurance for each individual transaction. The Banks for Cooperatives might also advise and assist the cooperative in hedging its currency position rather than face currency exchange exposure.

Many cooperatives feel that this is an opportune time to promote foreign sales and they sight several reasons including:

- 1) Warming of relations with Mainland China which could results in substantial trade with that nation;
- 2) Acceptance by countries like Japan of cherries and hopefully other fruit crops;
- 3) Changes in diet patterns of foreign customers which result in a stronger demand for products such as meat, feed grains, and fruits; and
- 4) An expressed desire by some foreign buyers to buy directly from our cooperatives.

As cooperatives seek to increase their export business, they will need financial services carefully tailored to these specialized requirements.

A primary objective of an expansion of agricultural exports is to enhance the profitability of the farmers operation and to help return a consistent and fair price for the product he produces. Cooperatives provide probably the most effective

method for the farmer to share in the profit of these sales. As cooperatives begin to understand the export market better and are given the tools to facilitate these types of sales, more interest will be generated in the foreign market. Any increased export business will also help balance the national trade deficit and hopefully make the farming industry more efficient as well as requiring less dependence on government support programs.

An Export Servicing Program by the Banks for Cooperatives would be of benefit to cooperatives who are already in the exporting business, as well as those who might be novices. A large regional grain cooperative in the Northwest must often hand carry documents to New York or Washington to expedite the honoring of drafts and subsequent transfer of funds to the West coast. There is little incentive for a commercial bank on the East coast to expedite the examination and approval of documents for a Northwest client. However, the travel expense and interest costs associated with a two- or three-day delay on a payment for a shipload of grain, could be quite substantial if the paperwork were given the priority that the Banks for Cooperatives would place on such a transaction.

In the past, Congress has made changes in the Banks for Cooperatives' charter to enable the Banks to adapt to changing financial needs of its borrowing cooperatives. As exports are becoming increasingly important to the farmers of the Northwest, cooperatives will need assistance from their Bank

to be competitive in these markets. The Bank for Cooperatives needs to be able to help its borrowers evaluate the risk involved in foreign markets and provide methods to meet that risk, and to be able to finance the facilities to develop foreign trade.

We respectfully request the approval of this Subcommittee and the Congress for these banking authorities so that the Banks for Cooperatives may continue to provide the services needed by the farmer and his businesses in the Northwest.

Statement of
Richard F. Price
on behalf of the
Southern States Coop. - Richmond, Virginia

Mr. Chairman and members of the Subcommittee, I am Richard F. Price, grain and livestock producer and Elected director from Maryland on the Southern States Cooperative Board of Directors, located in Richmond, Virginia. Southern States is predominately a supply and marketing cooperative, owned and directed by farmers in Maryland, Delaware, Virginia, West Virginia and Kentucky. We enjoy a membership of 320,934 members, exhibiting a total volume of \$508,600,000 during our last 12 months, ending June 30, 1979. Much of our success can be directly attributed to the working relationship with the Baltimore and Louisville Banks for Cooperatives. As financing needs of our cooperative grow, we find that more than ever we must rely on the Farm Credit Systems to provide the necessary capital. For this reason, I appreciate this opportunity to present the views of Southern States Cooperative concerning the Farm Credit Act Amendment of 1979, HR 4782.

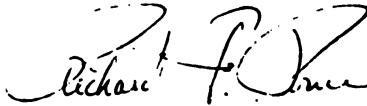
My primary interest in testifying is to apprise the Subcommittee that farmers through their Cooperatives, are continuing to expand the direct marketing approach of their products.

As farmers, we are proud of our production records. Unlike many other countries around the world, the United States has an abundance of food, particularly wheat and feed grains. Nearly one out of every three acres of production is available for export.

In order for us to promote the expansion of U.S. agricultural exports, and to increase the farmer's share of the benefits derived from those transactions, we need the financial services of the Banks for Cooperatives, which if passed by the House, this legislation would allow. Although much of our grain produced in our five state area is for domestic use, many millions of bushels are available for export. At considerable cost to our farmers, we must presently sell our grain through second and third parties in the export field.

There is no question in my mind, if Cooperatives could get the necessary financing and banking needs that the Farm Credit Act Amendments of 1979, HR 4782 can provide, we would benefit farmers and consumers alike. Farmers would derive additional benefits from expanded sales and reduced cost. The economy would be bolstered from the increased exports and agriculture would contribute even more to help lower our deficit balance of payments. Furthermore, our economists tell us that for each \$1.00 exported, \$2.00 of domestic economic activity is generated. Additionally, increased grain exports will significantly reduce government storage, saving taxpayers thousands of dollars in agricultural program costs.

Statistics reveal that 5 out of every 6 farmers use a Cooperative in some way, whether it be in marketing, services or supplies. These same figures go on to point out that only about 9.3 % of our exported grain is directly exported by regional Cooperatives. With the passage of the Farm Credit Act Amendments of 1979, HR 4782, we are confident there will be a tremendous increase in direct Cooperative exporting of grains. I ask that you consider this statement along with others and that you will give a favorable report on the Farm Credit Act Amendments of 1979, HR 4782. Southern States Cooperative of Richmond, Virginia and I, Richard F. Price, a farmer, appreciate the opportunity to voice the views so stated above. I will be pleased to appear before this Committee in response to any questions.



Richard F. Price
Director
Southern States Cooperative, Inc.

Stockton Dairy Farm
2515 Stockton Road
Phoenix, Maryland 21131

FEDERAL CONSERVATION AND FARM CREDIT ACT AMENDMENTS

SATURDAY, NOVEMBER 10, 1979

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CONSERVATION AND CREDIT
OF THE COMMITTEE ON AGRICULTURE,
Champaign, Ill.

The subcommittee met at 9:30 a.m. at the Champaign City Council Chambers, North Neal Street, Champaign, Ill.; Hon. Ed Jones (chairman of the subcommittee) presiding.

Present: Representative Madigan.

Staff present: Wayne A. Fletcher and James W. Johnson, Jr.

OPENING REMARKS OF HON. ED JONES, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TENNESSEE

Mr. JONES of Tennessee. Good morning, ladies and gentlemen.

Congressman Madigan will be here shortly. He and I came out together, but he had a job this morning to do in another town nearby, so he will be here shortly.

I want to tell you that I am Congressman Ed Jones, chairman of the Subcommittee on Conservation and Credit, which is a subcommittee of the full Committee on Agriculture.

I am from Tennessee and represent the Seventh Congressional District of Tennessee.

I want to welcome each witness and the guests who are here today, and thank you for taking the time for being with us.

I also want to thank the city of Champaign for the city council chambers and the facilities that we are going to enjoy here today.

I am sort of happy to tell you that today's hearing is the last in a series of six field hearings that we have had in the past several weeks.

We had to hold them on weekends, and it has taken a great deal of travel as far as subcommittee members and staff are concerned to get them in.

But I am happy, indeed, to be here in the heartland of America's farm country.

Our reason for coming to this area is that we feel we can attain some true facts from our witnesses.

Many of you are farmers, either farm connected or farm oriented.

We know that you can tell the subcommittee first hand what is on the minds of the farm people out in the country.

We are here primarily to get information on the Farm Credit Act amendments which have been proposed to update the present law.

Many of you will know that I introduced the legislation several months ago at the request of the governor of the Farm Credit Administration.

The bill is known as H.R. 4782.

In addition to the information that we hope to obtain on farm credit, we also hope to obtain information on a sound and nationwide conservation program. We are examining possible new incentives to encourage farmers to practice conservation farming.

We hope most of the testimony will be confined to these two areas, farm credit and conservation. If there is any that is not confined to these two areas, we will go ahead and accept it anyway.

Let me give you the rules of the hearing.

You can do one of two things.

If you summarize your statement, the entire prepared statement will still be made a part of the record, or you can read your statement. Whichever is more satisfactory to you.

We find that there are many people who prefer to summarize. And then, if we have the time, we will get answers to some questions.

I want to ask you to be as specific and as brief as possible, while being as thorough as you would like to be.

Your entire testimony, as I have mentioned, will be made a part of the official record of hearings.

Witnesses in most cases will not be questioned as they finish their testimony. There might be some reason for some question to be asked, but, normally, we do not question witnesses until we have finished a series of hearing witnesses.

As I said, I am very happy indeed to be in Congressman Ed Madigan's district.

Ed Madigan, as you know, is the ranking minority member of the Subcommittee on Conservation and Credit, one of the ranking members of the full committee, and a very very dear friend of mine, and a very able member of the subcommittee.

He and I have put together some of the legislation that we will be proposing next week before the House, and our staffs have worked closely together with many things that we have had to do.

There are two members of the staff here today. We had to leave one in Washington to get ready for the Federal crop insurance bill that will be handled on the floor of the House next week.

Wayne Fletcher is the minority staff member of the Subcommittee on Conservation and Credit. Wayne is an Illinois citizen.

The other member of the staff is Jim Johnson, who is a staff member on the Committee on Agriculture.

There are many of you out there that I know personally and many of you that I have seen in Washington, so let's be as casual as we can. Get to the point, and there will be no problems whatsoever.

I am one of the few members of the House Committee on Agriculture who actually lives on a farm, in fact, I was farming last week.

I see Mr. Madigan has arrived, so before I call the first witness, I'm going to ask Ed to welcome his constituency.

By the way, I think there are some here that are not your constituents, because I think some are from Indiana and other States also.

So, the Honorable Ed Madigan, the ranking minority member of the subcommittee.

Mr. MADIGAN. Mr. Chairman, thank you.

At the outset, let me apologize for being a couple of minutes late. I was in a meeting trying to pick the Republican Presidential delegate candidates. I would have invited you, Mr. Chairman, but I didn't think you would be interested.

We do have a good turnout, and that demonstrates the amount of interest there is in the farm credit system. I note that we have quite a long list of witnesses, so let me simply say that, like the chairman, I welcome all of you, and I am pleased that you are interested in participating in the hearings this morning.

I suggest that we move along with it.

Mr. JONES of Tennessee. Thank you, Ed.

I am going to call two witnesses at a time in order to expedite this. The first witness is Mr. Allan Aves, the president of the American Soybean Association, Washington, D.C., and the second witness will be Mr. Virgil E. Peterson, the executive vice president of Hoosier Energy Division, Bloomington, Ind.

STATEMENT OF ALLAN AVES, PRESIDENT, AMERICAN SOYBEAN ASSOCIATION; ACCOMPANIED BY JEFF GAINES, EXECUTIVE DIRECTOR OF GOVERNMENT RELATIONS

Mr. AVES. Thank you, Mr. Chairman.

I have with me Mr. Jeff Gaines. He is executive director of Government relations at ASA, St. Louis.

Mr. Chairman, I am Allan Aves of Kirkland, Ill., and I appear here today in my role as a farmer and as president of the American Soybean Association.

The American Soybean Association is an international commodity organization organized to assure the opportunity of a profitable soybean industry.

ASA works to accomplish these goals primarily by conducting programs for market development of soybeans and soybean products and to elicit strong support for effective programs of research and education.

At present, ASA has foreign offices in Madrid, Paris, Brussels, Hamburg, Vienna, Singapore, Seoul, Taipei, Tokyo, and Mexico City.

Each of these offices is staffed with specialists charged with the objective of expanding foreign demand for soybean and soybean products.

Now, more than ever, the American soybean producer is heavily dependent upon foreign markets. This year, American soybean producers will harvest a record crop of about 2.2 billion bushels of soybeans and about 55 percent of that crop will be sold abroad.

Soybeans now represent America's largest cash crop and its largest agricultural export commodity with an expected 1979 to 1980 export value of about \$9 billion.

The future points to even larger soybean crops and the need for even larger foreign markets.

It is with this in mind that I appear here today to express the support of the American Soybean Association for those provisions of H.R. 4782, the Farm Credit Act Amendments of 1979, which would

greatly enable farmer cooperatives to market agricultural commodities abroad.

As I have mentioned, American farmers will, this year, produce a record crop of about 2.2 billion bushels of soybeans.

In 1 year, the United States has increased its production of soybeans by an amount equaling the total production of Brazil, our chief competitor.

But producing this huge crop is not enough to assure success for the farmer. The majority of the soybeans must be sold to customers abroad at a price that will cover the farmer's production cost. And provide him with a reasonable profit.

As U.S. soybean production rises in the future, every avenue to increase export sales must be utilized if we are to maintain a viable economy.

While I am here today to express ASA's support for granting the banks for cooperatives the authority to help finance export programs for farmer cooperatives, I do not want to leave the impression that ASA is not pleased with efforts of our major private export firms.

On the contrary, I think that the record will show that the private grain export firms are the most efficient marketers in the world.

Compared to the national grain marketing boards of Canada and Australia, the private grain companies have provided American farmers, on the whole, with greater return from their production as a result of their long experience in the industry.

The American Soybean Association values the service provided by the private grain exporters, but we also feel that making more tools available to farmer cooperatives to assist in their export marketing activities can only benefit U.S. soybean producers.

The United States is currently seeing an increase in its sale of agricultural commodities to new areas of the world, especially the lesser developed countries.

If they are given the avid assistance from the banks for cooperatives, it is likely that farmer cooperatives will be able to make substantial sales in the expanding markets and the result will undoubtedly be even greater U.S. exports than if the cooperatives had not competed for the markets.

There have been some who have suggested the farmers of the farm credit administration never intended for the system to assist farmer cooperatives to the degree provided in H.R. 4782. However, as was pointed out by Mr. W. W. Gaston, president of Goldkist, Inc., during testimony before your subcommittee on October 4, 1979, the Farm Credit Act of 1971 makes specific reference to the need for the farm credit system to expand the credit and other services provided to farmer cooperatives in order to allow them to better serve their members' needs in a changing economy.

Stronger overseas markets are among these needs, and in order to sustain these markets, while financial tools must be made available to aid the farmer in reducing his risk to wide fluctuations in market price.

Furthermore, it is important to note that strong markets, through reducing the farmers' risk, also reduces the risk of institutions lending to farmers.

American agriculture is surely not the same today as it was when the farm credit system was conceived in 1916. Nor is it the same as it was in 1971 when Congress passed the Farm Credit Act.

In 1916 there wasn't even a fledgling soybean industry in the United States.

A little over half a century later, in 1971, the United State produced almost 1.2 billion bushels of soybeans and sold about 38 percent of those to foreign customers.

Now, only 8 years later, American farmers have almost doubled 1971 output and will sell close to two-thirds of that production abroad.

What served American farmers and their cooperatives in 1916 or 1971 will not necessarily serve them today. If American farmers depend upon international markets for their incomes, they have no alternative but to utilize international trading practices.

Therefore, Mr. Chairman, on behalf of the American Soybean Association, I urge you to support those sections of H.R. 4782 that will allow Banks for Cooperatives to better assist farmer cooperatives in marketing agricultural products abroad.

The legislation can only help to meet the needs of the future.

Thank you.

Mr. JONES of Tennessee. Thank you very much, Mr. Aves.

Mr. Madigan, you have a question?

Mr. MADIGAN. Mr. Chairman, I was going to ask you a procedural question.

I see we have, for this 9:30 hearing, some 17 certain witnesses and perhaps as many as 26.

Is it your intention to proceed through all of them and then bring them back to ask questions?

Mr. JONES of Tennessee. Yes in the opening statement, I did say that it is possible we may not be able to question anybody.

But, if we have a particular question, we will ask the witness after he states his testimony.

I am afraid we will run out of time.

Mr. MADIGAN. I agree with you. I think it would be more important for the witnesses to say what they came to say.

Mr. JONES of Tennessee. I think you are right.

The majority of these witnesses, we can contact anyway.

We appreciate you being here, and appreciate your statement. Thank you.

Mr. Aves. Thank you.

Mr. JONES of Tennessee. Following Mr. Peterson, there are five witnesses, Mr. Kahle, Bob Hester, James Finch, Jay Skinner, and Mr. Simeral. Are they here yet?

Mr. JONES of Tennessee. We will begin with Mr. Finch after Mr. Peterson testifies.

Now, Mr. Peterson, the executive vice president of the Hoosier Energy Division, Bloomington, Ind.

We are delighted to have you, and I enjoyed having a little brief visit with you a few minutes ago.

STATEMENT OF VIRGIL E. PETERSON, EXECUTIVE VICE PRESIDENT, HOOSIER ENERGY DIVISION

Mr. PETERSON. Mr. Chairman, members of the subcommittee, I would like to summarize my testimony and say that Hoosier Energy is a generating and transmission cooperative in southern Indiana that

serves the needs of the distribution rural electric systems in southern Indiana serving member consumers of about one-half million farmers and ranchers in that area, rural in nature.

At the present time we supply the energy requirements of about over 2 billion kilowatt hours.

The farm credit system, and particularly the Banks for Cooperatives, are an extremely important source of capital to rural electric systems.

As you know, the Federal Financing Bank, through the Rural Electrification Administration, supplies a good part of our capital needs. However, there are certain capital needs that can only be met by private lending such as BFC, Banks for Cooperatives.

To give you an idea of—at the present time we have under construction in Indiana an energy resource of 900,000 kilowatts of energy capacity, representing about a \$700 million investment.

Over the last several years, starting back in 1975, we have had involvements with the Banks for Cooperatives that go to financing a \$5 million field reserve to providing \$36 million in preconstruction financing.

At the present time we have arrangements with them for \$200 million worth of long-term financing.

Our financing at the present time also includes \$116 million with a group of commercial banks providing short-term financing on pollution control equipment.

In addition, the Federal Financing Bank is providing, for this particular, \$522 million for those needs.

So you can see that we rely very heavily on the Bank for Cooperatives in this program.

The LBC's provide to the rural electric systems such as ours a great deal of flexibility in our financing program.

One example that would be of particular interest at this time, to supply the fuel needs for that plant, about 26 million tons of coal over the next 20 years will come from a strip mine in Indiana, and about 26 million tons of that fuel will come from Illinois, just west and south of us here in Champaign.

But, to move that fuel over into Indiana from that deep mine, is going to require about a \$9 million investment on our part in transportation in Illinois to move that fuel.

And, at our board meeting this coming Monday, I am going to have a proposal there where we would hope to make a presentation to the Louisville Bank for Cooperatives for financing that type of transportation need.

We feel that it is imperative that the rural electric cooperatives be able to retain the Bank for Cooperatives as an ultimate source of financing for our needs.

We feel that it is in the best interest of our consumer members who are, basically, rural in nature, certainly in Indiana, and rural in nature across the country.

As you know, at the present time, there is a 70-percent limitation as far as eligibility requirements.

Even though we are in a highly rural area, we find that, over the years, the migration of nonfarm people to rural areas is even making

it difficult for us, I think, in years ahead, to maintain that eligibility.

So we think it is very, very important that these farm credit amendments of 1979 pass, and particularly H. Res. 4782. We feel that it is very imperative that we have continuous access to a dependable source of credit and the flexibility that it gives rural electric cooperatives such as ours in this financing market.

We strongly urge that you gentlemen in Congress would act favorably on H.R. 4782, because we feel that it is in the best long-term interest of the rural electric systems and the member consumers, and millions of member consumers all over the country that are serving the food and fiber producers of this country.

Thank you.

Mr. JONES of Tennessee. Thank you very much Mr. Peterson for summarizing your statement. Your prepared statement will be placed in the record.

[The prepared statement of Mr. Peterson follows:]

PREPARED STATEMENT OF VIRGIL E. PETERSON, EXECUTIVE VICE PRESIDENT AND GENERAL MANAGER, HOOSIER ENERGY DIVISION

Mr. Chairman and members of the Subcommittee, my name is Virgil E. Peterson, Executive Vice President and General Manager of Hoosier Energy Division of Indiana Statewide REC, Inc., Bloomington, Indiana.

Hoosier Energy is a generating and transmission cooperative with the responsibility to supply the energy requirements of rural electric cooperatives in the southern half of the state of Indiana. In April 1970, Hoosier Energy completed its first electric generating plant which has two coal fired steam generating units with a capacity of approximately 233,000 kilowatts. Hoosier Energy presently is constructing a coal fired, steam generating plant which will have a total capacity of approximately 980,000 kilowatts. The plant investment for this project, including related transmission facilities, will total \$722 million.

Currently, we are providing approximately 2.1 billion kilowatt-hours through our member distribution cooperatives. These member distribution cooperatives serve approximately 140,000 homes and businesses, reaching half a million consumers in southern Indiana. It is projected that to meet our members energy needs, additional plant investments of between \$750 million to \$7 billion will be required by 1990.

Without question, these statistics demonstrate the capital intensiveness of the energy industry and the need for large amounts of capital for the rural electric cooperatives of our country. Currently, much of the long term capital needs of the generating and transmission rural electric cooperatives are being met under the Rural Electrification Administration's guaranteed loan program which, for the most part, is funded by the Federal Financing Bank. However, there are certain large capital needs which must be met by private lenders such as the Banks for Cooperatives. These important capital needs include front-end financing for the early stages of energy projects for environmental impact statements, analysis of alternatives, feasibility studies, land acquisition, long lead time ordering of equipment, financing of fuel supplies and fuel transportation. During the construction of a project, interim construction loans may be required. These types of financial needs can total \$100 million or more. The ability of the Banks for Cooperatives to participate in this type of financing, allows rural electric cooperatives to maximize financial management which, in turn, can save the ultimate member consumer millions of dollars.

Hoosier Energy first obtained a \$5 million dollar loan from the Louisville Bank for Cooperatives in March 1975, to acquire certain valuable coal reserves. Since then, we have obtained several loans from the Louisville Bank for Cooperatives for our present construction program. A \$36 million loan which provided necessary preconstruction financing has been repaid. Currently, the Louisville Bank for Cooperatives is providing a \$50 million construction interim loan and \$200 million of our long term financing. A group of commercial banks

are presently providing a short term loan of \$116 million for pollution control equipment. \$522 million is being provided by the Federal Financing Bank. It is of vital importance that Rural Electric Cooperatives, such as Hoosier, continue to have access to the lending capabilities of the Banks for Cooperatives. The loans we have with the Louisville Bank for Cooperatives is providing Hoosier Energy with one of the most flexible financing programs of any generating and transmission cooperative in the nation. The flexibility in this financing program allows us to maximize our financial management capability which can save millions of dollars for the member consumer at the end of the electric line.

Because of our cooperative's obligation to produce and deliver energy at the lowest possible cost to the members, it is imperative that the rural electric cooperatives have access to a dependable source of financing which is capable of meeting our needs. As Executive Vice President and General Manager of Hoosier Energy, I believe the Banks for Cooperatives to be an important alternate source of dependable credit. I can say without question, this feeling is shared by many other executives and directors of rural electric generating and transmission cooperatives across the country. Therefore, I welcome this opportunity to present testimony in support of H.R. 4782. It is my sincere belief that, in the best interest of the hundreds of thousands of rural electric consumers across this nation, it is extremely important that the rural electric cooperatives continue to be eligible to borrow from the Banks for Cooperatives.

At the present time, to qualify as a borrower from the Banks for Cooperatives, at least 70 percent of the voting stock of a rural utility cooperative must be held by farmers. By law, electric cooperatives are required to serve everyone in their service areas. All users must become members and have the right to vote in the business affairs of the cooperative. This is distinctly different from a farm supply cooperative which may serve members and non-members alike, and which has the right to determine which patrons may hold voting stock.

As we all recognize, we are witnessing the continuing trend of the migration of non-farm people to rural areas. Because of this continuing trend, and in light of the fact that the rural electric cooperatives must provide electrical service to these families and must grant them a voting membership, it is becoming increasingly difficult for many of Hoosier Energy's member rural electric cooperatives to meet the existing eligibility requirements. For Hoosier Energy, which is a Division of Indiana Statewide Rural Electric Cooperative, Inc., to qualify as a borrower, 70 percent of Indiana's Rural Electric Cooperatives, or approximately 30 of its 42 distribution cooperatives, must be able to meet the Bank's eligibility requirements under existing law. With continued urbanization in the Indianapolis area, as well as in other sizable cities in Indiana, these distribution cooperatives are finding it more and more difficult to meet the Banks' eligibility requirements. Consequently, it is becoming more difficult for Hoosier Energy to maintain their eligibility for borrowing.

As I previously indicated, the Banks for Cooperatives are an extremely important and vital source of financing and, without reservation, I feel it is imperative that we continue to have access to the capital markets through the Banks for Cooperatives. The Banks for Cooperatives have been in existence for well over 40 years and are a proven, dependable source of credit to cooperatives throughout the nation. Through this system, we can obtain financing at a very competitive rate and, in many instances, at the lowest rate. If we are to continue to meet a significant portion of this nation's energy requirements and the energy requirements of the food and fiber producers of this nation in the most economical manner, we need access to borrow capital from the Banks for Cooperatives.

I appreciate the opportunity to present this testimony on behalf of Hoosier Energy. I strongly urge that Congress act favorably on H.R. 4782 which, I believe, is in the best interest of all rural electric cooperatives and the millions of member consumers across the nation.

Mr. JONES of Tennessee. Mr. Peterson, will you remain just a moment. Mr. Madigan has a question he would like to ask you.

Mr. MADIGAN. If I may ask you just one question. Mr. Peterson. What is it that you contemplate doing with this \$9 million in Illinois?

Mr. PETERSON. That would be to improve rail facilities.

Mr. MADIGAN. To continue to be operated over by the same railroad?

Mr. PETERSON. Yes, sir.

Mr. MADIGAN. You would be upgrading track?

Mr. PETERSON. Assisting in the financing of upgrading that transportation system to move that fuel, because we have a 20-year contract.

Mr. MADIGAN. And then would you have a signed contract with the railroad?

Mr. PETERSON. Yes, we would.

Mr. MADIGAN. Guaranteeing that they would continue to provide the service?

Mr. PETERSON. Yes, sir.

Mr. MADIGAN. Thank you, Mr. Peterson.

Mr. JONES of Tennessee. Thank you very much, Mr. Peterson.

Our next witness is Mr. James Finch of West Lafayette, Ind.

**STATEMENT OF JAMES FINCH, GRAIN AND LIVESTOCK FARMER,
WEST LAFAYETTE, IND.**

Mr. FINCH. Mr. Chairman, and members of the subcommittee, my name is Jim Finch. I am from West Lafayette, Ind. I have a 550-acre family farm where I raise 250 acres of corn, 250 acres of soybeans, 50 acres of wheat, and feed 80 head of cattle. We have been involved with the family farm operation for 30 years. Presently, I serve on the Lafayette Cooperative Elevator Co. board of directors.

I appreciate the opportunity to appear before this subcommittee to present my views in support of H.R. 4782.

I am testifying on the provision that would allow the Banks for Cooperatives to become involved in financing the export of grain and other agricultural products.

This is important to Indiana farmers who export approximately 30 percent of their corn, 50 percent of their soybeans, and 60 percent of their wheat.

For years, Indiana's farmers have supported agricultural cooperatives working together to market their products and improve their income by direct grain export.

I believe that anything that improves the exporting of grain and other agricultural products is in the best interest of this country, since it will aid our balance of payments.

However, for the farmers cooperatives across the Nation to compete in the foreign marketplace, we must expand the Banks for Cooperatives' ability to finance agriculture exports.

For over 40 years, Banks for Cooperatives have been the primary lender to agriculture cooperatives and have provided dependable, constructive credit and sound counsel and advice.

The Banks for Cooperatives needs the authority to develop international financing for the following reasons:

1. Cooperatives require the knowledge and assistance of their primary lender to maximize rates on foreign sales of agricultural products.

2. U.S. cooperatives need financing alternatives for handling payments by foreign buyers.

3. International financing by the Banks for Cooperatives will help family farmers by providing expanded export channels through their own cooperatives.

The major authorizations requested by the Banks for Cooperatives are:

1. Permit the Banks for Cooperatives to make deposits in foreign banks. These deposits are required to make payments and collection effectively and would establish effective correspondent relationships.

2. Enable the Banks for Cooperatives to receive and hold credit balances from the banks and borrowers.

It will be essential for the Banks for Cooperatives to accept funds from borrowers and financial institutions, allowing the efficient transfer of funds for the international transaction of farm cooperatives.

3. The authority to hold deposits of foreign banks would permit the efficient exchange of deposits.

This is a normal correspondent relationship between banks and foreign countries.

4. Authorize the Banks for Cooperatives to purchase and sell bankers acceptances.

These are important marketing instruments due to their acceptability and ease of exchange. This is a normal practice in international banking and is needed by the cooperatives.

5. Authorize the banks for cooperatives to purchase drafts drawn on domestic and foreign banks to speed up financing and collection of exports.

6. Authorize the banks for cooperatives to engage in currency exchange. This marketing tool permits the borrower to complete transactions quickly and easily.

I know that you agree that anything that improves our export situation is beneficial to our economy; allowing a direct contact between the cooperative's marketing channels and the ultimate user increases the profit of the family farmer. This, in turn, maintains the strength of the family farmer who has been the backbone of American agriculture.

This request for additional authority by the banks for cooperatives has resulted from the need by the agricultural marketing cooperatives to better finance their export transactions.

I believe that this proposed legislation is in the best interest of the American farmer and also in the best interest of this Nation's economy.

I urge your approval.

Thank you very much for providing me this opportunity to present my views.

Mr. JONES of Tennessee. Thank you very much, Mr. Finch. A very good statement, and we appreciate your coming here.

Our next witness is Mr. Harold Dodd, the president of the Illinois Farmers Union, Springfield, Ill.

Mr. Dodd, welcome, and you may proceed.

STATEMENT OF HAROLD DODD, PRESIDENT, ILLINOIS FARMERS UNION

Mr. DODD. Besides being president of the Illinois Farmers Union, I'm mainly a farmer.

I do have a 1,400-acre corn and soybean farm at Loami, Ill. You never heard of that, but that is about 18 miles southwest of Springfield, Ill.

It seems as though everyone is talking about the credit bill, and I would like to start off by saying that we are in total support of the credit bill.

But I would like to, if I may, talk a little bit more about soil conservation.

Did I understand you correctly that this would be proper?

Mr. JONES of Tennessee. You are absolutely right; yes.

We are here for both purposes. We think that it is rather inconsistent to go out for a hearing unless we try to cover the waterfront.

We have problems of both, and legislation that has to be proposed, and we try to kill a couple of birds with one shot.

Mr. Dobb. Well, in the first place, the Farmers Union has a long history of support for the credit agency authorized by the Farm Credit Act of 1916.

Farmers today know these agencies, such as Production Credit Association, Federal lending banks, and so forth, and we have always supported these bills and are always in support of anything that in anyway can improve them.

And we are in total support of H.R. 4782.

But, that having been said, I do not have a prepared statement, but I would just like to talk to you for a few minutes, if I may, about some ideas that I have about what I think is a major problem in Illinois, at least—and I have a feeling that it is widespread—and that is erosion.

A few years ago, we farmers were asked to plow everything up, from fence to fence, by our own U.S. Department of Agriculture. You people in Washington know that I am not lying about that. We were urged to feed a hungry world, plow it up from fence to fence. And so the farmers obliged.

Then we created surpluses which depressed the prices. And so you would think that maybe we might have a program to take some of those acres out, but that doesn't seem to be the case.

There is hillside after hillside being put into row crop that any person knows shouldn't be.

And our universities are trying to teach us ways in which we can farm the hillsides, which is with no till systems and what have you.

But I think that you first have to note that there is a problem, and the problem of erosion is the principal cause of pollution. And so if we can stop erosion we will greatly enhance the chance of cleaning up our water and our sediment and all of those things involved.

You have to understand why the farmer is continuing to plow up that hillside that probably he knows better; he knows that he probably shouldn't be plowing it up.

But since he plowed it up, the expenses have increased so greatly and the taxes have increased so greatly that he simply cannot afford to put it into a more soil-conserving practice.

He has to continue to put in a row crop in order to make ends meet.

Now, I have been on the scene for 20 years trying to get agricultural appropriations approved in Washington, D.C., and I know that it is very difficult, and I know that everyone knows that we are about 3 per-

cent of the people and all of those kind of things which we have thrown at us all the time.

But I think that there is a way, because I sat in on 20 meetings—1 a month for 20 months—at the EPA, to which they had invited the agriculture community to come to have some input on the 208 plan, which would, hopefully, clean up the water to become fishable and swimmable by 1983.

And I know that erosion is playing a big part or will play a big part in being able to accomplish that 208 plan.

And since the EPA is wanting that water cleaned up, and the great American public is wanting the water cleaned up, and since we probably won't get the necessary appropriations to accomodate agriculture with what it takes to stop the erosion, I would like to propose a plan where the EPA appropriates the money and let's the ACP put the program in practice.

And it is something to the effect that the first problem is the farmer can't afford to take it out without some kind of incentive payments.

And if the farmer received an ACP payment which would make that land more nearly on a net income basis what he grows in row crop, I think this would be the necessary enticement for him to take that land out of row crop and stop it from washing away, and stop polluting the water, and all of those kinds of things.

I try very hard to stay away from another aspect of that, because that sounds very much like a selfish interest, but if we had this kind of a program in effect, it would also take a lot of the hillsides out of row crop and make the land that is more suitable for intensive tilling more profitable.

And, with that, I think I'd better stop, before I get over my time.

Thank you very much for the opportunity to come here and present our viewpoints.

Mr. JONES of Tennessee. Thank you very much, Mr. Dodd, that was a good statement.

I must admit that I am greatly concerned with the problem that you are talking about, as well as our entire subcommittee is.

We will skip down to Mr. Byron Jones of Saybrook, Ill., for his testimony.

STATEMENT OF BYRON E. JONES, STOCKHOLDER AND MEMBER OF BLOOMINGTON PRODUCTION CREDIT ASSOCIATION, BLOOMINGTON, ILL.

Mr. BYRON JONES. Thank you, Mr. Chairman, Mr. Madigan.

I will try to summarize my written statement.

I am a member and stockholder of Bloomington Production Credit Association of the Sixth Farm Credit District.

Our local association, on August 29, had \$50 million of outstanding loan volume.

I appreciate the opportunity to present my views on H.R. 4782.

My primary concern is to maintain the financial strength of the agricultural community.

We have a very viable agricultural environment that is changing in the growth of our export markets.

We also are making sizable inputs of imported fuel.

Our inflation and price levels since 1971, when the most recent Farm Credit Act was passed, has changed drastically, as have the estate and inheritance tax laws.

As a result, our thought is that it is necessary that we do upgrade the necessary rules and regulations for the Farm Credit System.

One of those situations is, to serve the world markets we must allow the banks of cooperatives to use the necessary machinery necessary to serve farmers and get those products into the world market.

The second factor is that Federal land banks and PCA's be allowed to finance the processing and marketing activities within the communities, so that we can get the products closer to the consumer.

One of your primary objectives is to satisfy the consumer with the best product at the cheapest possible cost, and if we could do this processing and marketing closer to home, we can get that job done with less transportation cost and probably at a lower labor cost, and get these products on the market.

We need to provide many of the families of farmers, such as possibly my son or daughter, with the opportunity to do this processing close to home. This, essentially, promotes the family involvement within agriculture, which I am sure you are interested in.

The 85 percent limit on Federal land banks is excellent. I realize that some farmers, especially in disaster areas, may have to go above that and need the FmHA or the Small Business Administration to support them in the form of guarantees in order to continue to operate.

Many young farmers, this is the only way they can get started farming.

However, let's also make sure that local management of Federal land bank and production credit maintain a good sound strong system.

We need a local cash flow in normal terms to maintain a local community with financial strength.

Of course, the Farm Credit Administration has to update its personnel policies in order to have good people work with it.

PCA's and Federal land banks perform a number of other services for their members, and, as I view this, this is for the total financial strength of their system; namely, to keep better records and to provide certain insurance services so that their borrowers can maintain their businesses.

In the case of some young farmers or in the case of some older farmers who might be in a serious position due to drought or hail over 2 or 3 years, their views and possibly their sight is somewhat narrowed, so that they need the advice and the counseling of their lending agent, who is probably the most well-informed person that can give this advice or service to them.

The Farm Credit System strength most needs to serve an expanding situation within our business.

Our needs have grown very fast with inflation, as well as with the changing inheritance and estate tax laws.

Personally, our local bank system cannot serve my needs. And, again, my primary concern comes in financial strength of the agricultural community.

I wish to have the money markets of the United States open to my usage so that I can stay in business with relatively low cost capital, and have volume to continue in business.

Thank you.

[The prepared statement of Mr. Byron Jones follows:]

**PREPARED STATEMENT OF BYRON E. JONES, STOCKHOLDER AND MEMBER,
BLOOMINGTON PRODUCTION CREDIT ASSOCIATION**

Mr. Chairman, my name is Byron Jones. I am a stockholder and member of the Bloomington Production Credit Association which is a portion of the Sixth Farm Credit District of the Farm Credit System. My local association had \$50,000,000, of outstanding loan volume on August 29, 1979. I appreciate this opportunity to present my views concerning H.R. 4782, the Farm Credit Act of 1979.

Primary concerns of these amendments should be to maintain the financial strength of the agricultural community. Many changes have occurred in the agricultural environment which include major growth of world markets for our ag products, sizable imports of farm inputs especially fuel, tremendous inflation in values of farm assets especially real estate, and major changes in inheritance and estate tax laws pertaining to the transfer of farms from one generation to the next. All of these realities require the Farm Credit System to update it's set of working rules and relationships. The Bank of Cooperatives should be allowed to service the expanding foreign trade. It should be allowed to make deposits in foreign banks, receive and hold credit balances from banks and borrowers, buy and sell bankers acceptances, purchase time drafts payable by foreign buyers of agricultural products and engage in currency exchange. Since President Nixon took us off the gold standard, these changes have been needed as our ag products have become in essence a world barter commodity.

Along the same trend of thinking, Federal Land Banks and Production Credit Association should be permitted to finance Processing and Marketing activities to a greater degree. Many processing and marketing services can become more efficient if performed on a larger scale than many small units. Agriculture production per man has made great strides during my 19 years of farming. The next decade will see even more radical changes as we use new energy sources and production technology. Please allow us the financial strength to process and move our products into the consumer market as efficiently as possible.

The 85-percent lending limitation on Federal Land Banks is excellent and should be only exceeded as a means of disaster support and when guarantees could be extended by Farmers House Administration or the Small Business Administration. The financial strength of an entire community is best served when cash flows are promoted to revolve during normal time sequences. Thus, drought or floods to an area over prolonged periods must be supported by a larger area of finances.

However, without FHA guarantees, many good farmers could be closed out during prolonged periods of disaster. Some young farmers have started in the past in this manner. Their road has not been easy, but I am sure that they learned their financial lesson well.

The Farm Credit Administration should be allowed to update its policies in regard to employee salaries, classifications and qualifications in order to retain and attract good personnel.

The P.C.A.'s and F.L.B.'s should be allowed to perform services that may render their members more credit strength. Many young borrower's have not had the experience to recognize the probability of risk loss due to hail, accident, or death. Some elder members need the advice and use of better records. Insurance and record services need to be utilized and promoted where there are deficiencies. Independent salesmen are not aware of the businessman's or farmer's financial management, but his banker must be and can be a trusted advisor in areas of risk insurance. Most of these services can be contracted from other large companies. In most cases the lending agent is probably the best advisor. In periods of stress, many farmers have narrow vision and need the best advice available.

My farm raises 5,000 hogs, 200,000 bushels of corn, and 12,000 bushels of soybeans. My local banks cannot serve my financial needs due to their inadequate size. Thus my concern for a sound Farm Credit System which is allowed to function during the changes of the next decade.

In summary, my desire is that the amendments be adopted in order to maintain fiscal strength in the agricultural community. The Farm Credit System needs to be able to serve the expanding agriculture needs and continue as a capable advisor.

Mr. Chairman, thank you for allowing me to present my views before your subcommittee.

Mr. JONES of Tennessee. Thank you very much, Mr. Jones.

Would you hold for just a moment? Mr. Madigan has a question to ask you.

Mr. MADIGAN. Byron, one of the criticisms of all of this is that the PCA's, according to some farmers, are not doing as good a job servicing individual farmers as once was the case. I have heard that and Mr. Jones has heard that.

That seems to be a geographic thing, and the complaint arises more in some places than it does in other places.

But, if we expand the authority of the farm credit system to get into marketing and processing, to get into financing of overseas sales, to do these different kinds of things, doesn't that suggest to you the possibility that their interests will be broadened so much that their service to the individual farmer might be sacrificed by all of that?

Mr. BYRON JONES. No; this doesn't bother me at all.

From two methods of thought, that is true. One, somebody is going to finance these activities.

Presently speaking, the larger banks are financing a very good expert system, yes.

But, in McLean County alone, one of our former State directors of agriculture tried to get together a group of McLean County farmers, of which I was a member, to form a cooperative export McLean County group.

Our downfall came that in order to finance our export business, we had to put up our land as collateral.

This is not necessarily true within the normal way of doing business in order to get those products from McLean County into the world market system.

Most of us were not willing to sacrifice our production collateral or our long-term collateral in order to gain a few cents more per bushel or the freedom to market that to a specialty product outlet.

Mr. MADIGAN. Thank you.

Mr. JONES of Tennessee. Thank you very much, Mr. Jones. If we have time, I have a question too that I would like to direct to you, but I going to pass for the moment and ask that Delmar Bulta of Bellflower, Ill. be heard.

STATEMENT OF DELMAR BULTA, McLEAN COUNTY SERVICE CO.

Mr. BULTA. Mr. Chairman and members of the subcommittee, my name is Delmar Bulta.

I operate a farm in the Bellflower area in southwestern McLean County.

I currently am serving as president of the board of directors of McLean County Service Co., a farm supply and grain elevator cooperative with service and storage facilities throughout the county.

I am going to highlight portions of my testimony.

McLean County has some of the best farmland in the State. Millions of bushels of corn and soybeans, as well as oats and wheat are produced here.

The grain merchandising volume of McLean County Service Co. alone has averaged well over 6 million bushels yearly in the past 3 years.

There is no doubt that farmers are vitally interested in what happens to the grain after it leaves an individual farm, and even after it leaves their local and their regional cooperative.

When it comes to market, one aspect that farmers are reading about and talking about more than any other is the area of export sales.

Farmers also are very much aware of the limited percentage of direct export sales at their cooperatives now and they are urging the cooperatives to become more active in pursuing export markets.

They believe strong export sales represent a means of increasing their returns.

It is for this reason that I am here today. I am familiar with the basic provisions of the Farm Credit Act amendments of 1979 or H.R. 4782.

We feel the legislation has considerable merit and are supportive of it, but we are particularly interested in those provisions dealing with the financing of exports by the Banks for Cooperatives.

We do believe that the legislation's passage will be further stimulus for sales.

The Bank for Cooperatives in St. Louis is the primary lender for McLean County, for Illinois Grain Co., and also for Agri-Trans, the regional barge line that transports grain from the midwest to the Gulf of Mexico.

In the cooperative in which I am involved, we rely heavily on the financial advice and counsel of the Bank for Cooperatives. We are close to them, and they to us.

The close working relationship between banks of the BC system would itself be of major benefit to cooperatives in the business of foreign trade, since a pool of knowledge and information would be available between banks and, therefore, available to cooperative users.

I have read recently that there are objections to the Banks for Cooperatives getting into the export financing business.

Among other things, it has been said that the request represents a whole new area of activity for the Banks for Cooperatives, an area that is risky and technical and far afield from the original thrust of farm credit activities.

Mr. Chairman, I agree with all of these observations, but for reasons that are positive rather than negative in nature.

Yes, export financing is a new area for the Banks for Cooperatives. But it seems to me it is in an area in which most farmers want the primary lender to their cooperative organizations to be involved as a further means of helping farmers help themselves.

Yes, exports sales is a technical area that involves risks. All the more reason, in my judgment, why cooperatives need and want the services

and counsel of the financial institution that knows them best, their own Banks for Cooperatives.

And, yes, export financing obviously wasn't considered a necessary service when the Banks for Cooperatives were formed.

So, from that standpoint, it is an area that could be described as far afield from the original thrust of farm credit legislation.

But then U.S. agriculture today is a far cry from what it was 50 years ago too.

And I, for one, am glad that our cooperative farm credit banks have been able to change, either routinely or through actions of Congress, to keep pace with this industry of ours.

Farmers, and apparently many other people both within and outside of agriculture, are convinced of the potential benefits of expanded exports in the future.

And farmers want to make sure that they have the services available through their own organizations to turn this potential into reality.

As long as agriculture is subject to change, the institutions that serve it, are going to have to change or face the prospect of withering on the vine.

Mr. Chairman, I would like to urge this subcommittee's approval of H.R. 4782, to make sure our farm credit institutions can continue to serve the new and expanding needs of agriculture just as they have served agriculture so effectively in the past.

Thank you.

[The prepared statement of Mr. Builta follows:]

PREPARED STATEMENT OF DELMAR BUILTA, McLEAN COUNTY SERVICE CO.

Mr. Chairman and members of the Subcommittee, my name is Delmar Builta. I operate a farm in the Bellflower area in southeastern McLean County. I currently am serving as president of the board of directors of McLean County Service Co., a farm supply and grain elevator cooperative, with service and storage facilities located throughout the county.

In addition, I serve as vice president of the board of directors of FS Services, Inc., a regional farm supply cooperative with which our local is affiliated, and I am on the board of the Illinois Grain Co., a regional grain marketing cooperative. Thus, while I am speaking here today on behalf of McLean County Service Co., my service on the boards of these other organizations has broadened my practical experience in the workings of the cooperatives that I and my fellow farmers own. My outlook on what we as farmers face in the future, and the services we will need from our cooperative organizations to keep our farming operation economically healthy also has been shaped by this involvement.

McLean County has some of the best farmland in the state. Millions of bushels of corn and soybeans, as well as oats and wheat are produced here. The grain merchandising volume of McLean County Service Co. alone has averaged well over six million bushels yearly in the past three years.

Our cooperative's grain volume is marketed largely through Illinois Grain Co. whose yearly volume is in the 300 million bushel range.

It has been said in the past that farmers generally are very production-oriented but not really very market-conscious. The view was that while farmers were quick to adopt new production technology to gain those additional units of output, marketing considerations and investments were slighted.

I can't say today that this situation has been turned completely around, but things certainly have changed considerably. The explanation for these changes in emphasis and outlook is easy and uncomplicated. Farmers realize that production is just one part of the business equation. To increase their returns on their ever-growing investments in land, equipment and machinery, attention also must be given to marketing. Based on contacts with farmers in my home county and those in other parts of the state, there's no doubt that farmers are vitally

interested in what happens to their grain after it leaves their individual farms and even after it leaves their local and their regional cooperative. And they have followed up on that interest with investments in facilities and organizational machinery to get the marketing job done. We haven't achieved all our goals in this area yet but we've come a long way in the past five to ten years. And it's my judgment that farmers generally are determined to do for themselves as effectively in marketing as they have done for themselves in providing for various sources for supplies.

When it comes to marketing, there's one aspect that farmers are reading about and talking about more than any other, and that is the area of export sales.

Farmers see considerable potential both in expanding export sales generally and in increasing their own piece of the export sales action. Obviously, greater U.S. export sales are needed to offset our nation's purchases of overseas goods, particularly petroleum. And farmers are very much aware of the role that agricultural sales have played and are expected to play in this regard.

Farmers also are very much aware of the limited percentage of direct export sales that their cooperatives now have. Farmers are urging their cooperatives to become more active in pursuing export markets. They believe strongly that export sales represent a means of increasing their returns.

Various figures I have seen, point out that direct exports of grain by cooperatives account for less than 10 percent of all export grain sales. Since cooperatives unquestionably have the ability to handle grain as it moves off the farm, and have increased their capabilities to market it through regional cooperatives and move it to export locations, farmer cooperatives in this country should be in the position of taking a more active role in export sales in the years ahead. We feel we have some catching up to do with cooperatives in many other countries in this area of activity. And based on some world-wide trade meetings and discussions during the past year or so, which we have read about, we believe there are foreign buyers, including cooperatives, that want to do business with U.S. cooperatives.

It's for this reason that I am here today. I am familiar with the basic provisions of the Farm Credit Act Amendments of 1979 or HR 4782. We feel the legislation has considerable merit and are supportive of it, but we are particularly interested in those provisions dealing with the financing of exports by the Banks for Cooperatives.

Now, it's true that our local cooperative is not going to start its own active direct export sales effort as a result of this legislation being passed. We feel our own regional and inter-regional organizations can handle this activity on a more efficient and coordinated basis. But we do believe that the legislation's passage will be a further stimulus and inducement for export sales, including those for grain. And to the extent that cooperative export sales are encouraged, farmers in McLean County are going to benefit because of our involvement and investments in Illinois Grain and in Farmers Export Co., of which Illinois Grain is part owner.

The Bank for Cooperatives in St. Louis is the primary lender for McLean County, for Illinois Grain Company and also for Agri-Trans, the regional barge line that transports grain from the Midwest to the Gulf of Mexico. In other parts of the country, Banks for Cooperatives fill a similar need for most other cooperatives. Yet when it comes to handling the financing of exports, cooperatives are unable to use the services of their primary lender . . . the Banks for Cooperatives that these cooperatives own, and which know the cooperatives and their operations better than any other financial institution.

In the cooperatives in which I'm involved, we rely heavily on the financial advice and counsel of the Bank for Cooperatives. We are close to them and they to us.

I'm not a financial expert and certainly am not familiar with all the technical financial details involved in foreign trade. Few farmers are, but if this kind of expertise were available from the Banks for Cooperatives, I'm convinced more cooperatives would be involved in export sales and that farmers, as well as the nation as a whole, would benefit.

The close working relationship between Banks of the BC system would itself be a major benefit to cooperatives in the business of foreign trade since a pool of

knowledge and information would be available between Banks and, therefore, available to cooperative users.

I've read recently that there are objections to the Banks for Cooperatives getting into the export financing business. Among other things, it has been said that the request represents a whole new area of activity for the Banks for Cooperatives, an area that's risky and technical and far afield from the original thrust of Farm Credit activities. Mr. Chairman, I agree with all those observations, but for reasons that are positive rather than negative in nature.

Yes, export financing is a new area for the Banks for Cooperatives. But it seems to me it's an area in which most farmers want the primary lender to their cooperative organizations to be involved as a further means of helping farmers help themselves.

Yes, export sales is a technical area that involves risk. All the more reason, in my judgment, why cooperatives need and want the services and counsel of the financial institution that know them best . . . their own Banks for Cooperatives.

And, yes, export financing obviously wasn't considered a necessary service when the Banks for Cooperatives were formed. So, from that standpoint, it is an area that could be described as far afield from the original thrust of Farm Credit legislation. But then U.S. agriculture today is a far cry from what it was 50 years ago, too. And I for one am glad that our cooperative Farm Credit Banks have been able to change, either routinely or through actions of Congress, to keep pace with this industry of ours. Farmers, and apparently many other people both within and outside of agriculture, are convinced of the potential benefits of expanded exports in the future. And farmers want to make sure they have the services available through their own organizations to turn this potential into reality.

As long as agriculture is subject to change, the institutions that serve it are going to have to change or face the prospect of withering on the vine.

Mr. Chairman, I would like to urge this subcommittee's approval of H.R. 4782 to make sure our Farm Credit institutions can continue to serve the new and expanding needs of agriculture, just as they have served agriculture so effectively in the past.

Mr. JONES of Tennessee. Thank you very much, Mr. Builta.

We appreciate the time that you have taken to be here with us.

Now, Mr. Vincent Kahle of Lucky Farms in Woodville, Ohio.

STATEMENT OF VINCENT C. KAHLE, LUCKY FARMERS INC.

Mr. KAHLE. Mr. Chairman, members of the subcommittee, I am Vincent Kahle, general manager of Lucky Farmers Inc., a position I have held for over 30 years.

Lucky Farmers Inc. was originally located at Lucky, Ohio, and is presently headquartered at Woodville, Ohio, having nine elevators serving areas in three Ohio counties and over 5,000 farm families and other rural residents.

Lucky Farmers Inc. is a stockholder of the Louisville Bank for Cooperatives, which bank has been our banker since 1950.

Lucky Farmers Inc. is also a member of Ohio Farmers Inc., Fostoria, Ohio, a regional grain market cooperative serving 112 farmer cooperatives which, in turn, serves over 50,000 farmer members.

Ohio Farmers Grain Corp. is a member of Midstates Terminal, Toledo, Ohio, which is owned by three regional cooperatives operating in Indiana, Ohio, and Michigan.

Midstates terminals markets approximately 56 million bushels of grain annually with the major portion moved into the export market.

It is indeed a pleasure for me to have the opportunity to present testimony in support of H.R. 4782.

It is my sincere belief that the proposed Farm Credit Act Amendment of 1979 is in the best interest of the farm families which are served by the cooperatives with which Lucky Farmers Inc. is identified.

I would especially voice strong personal support of the proposed amendment which would allow the banks for cooperatives to provide financing and other related services to facilitate more efficient and effective exports of grain by agricultural cooperatives.

It is certainly a fact that an increase in our country's share of the grain export market is of substantial benefit to our national interest. If our farm families can sell their grain to a cooperative such as Lucky Farmers Inc. and their grain is exported through cooperative marketing channels, it should result in additional net income for them.

I know that grain farmers are anxious to improve the marketing of their production through the expansion of trade in the world markets rather than to be forced to participate in Government support programs as an alternative.

Therefore, the proposed amendment should help improve the grain exports and, at the same time, benefit the American farm family with increased income, while at the same time assisting in bringing our national burden of balance of payments into a more favorable situation.

As we consider the grain farmer selling his grain through his cooperative, it is not at all unnatural for him to want to continue to be involved with the final disposition of that grain, whether it is moving in the domestic or export channel.

Considering the local cooperative members' attitude and desire, our grain export marketing cooperatives therefore must have the ability and capacity to deliver their farmer members' production to the ultimate end users.

Under the present circumstances, they oftentimes must withdraw from the final marketing process and turn the shipment over to an exporter who will deliver and collect for it at its final destination point.

With 40 percent of the U.S. grain farmers' production being initially delivered to local cooperatives, it seems that a larger percentage of that production should move through cooperatives to foreign market destinations.

Our banks for cooperatives have done an excellent job of financing a cultural cooperative throughout the Nation since the banks were chartered in the early 1900's.

Since financing is such an important part of exporting grain, it is extremely important that the banks for cooperatives be permitted, through this legislation, to fulfill the needs of cooperatives exporting grain by providing the financial services associated with that activity.

I know of no financial institution doing business with cooperatives that is better qualified to provide the services identified in H.R. 4782 than the banks for cooperatives.

Their dependability, and also because of their many years of experience as lenders, working with cooperatives, and particularly those in the fields of agriculture, makes their situation unique to provide counsel and assistance to grain marketing cooperatives.

Relative to the amendment of the Farm Credit Act of 1979 that deals with the eligibility requirements of borrowers, I would urge Congress to consider its passage.

As a stockholder of the Louisville Bank for Cooperatives, I believe that it has provided the necessary financing for its member borrowers on a sound and constructive basis.

Through the years, the bank has made a significant contribution to the development and growth of numerous cooperatives in the fourth farm credit district.

All of us realize that there has been a trend for many years past, and especially so in highly industrialized areas, that more and more city workers are moving to rural America to live and raise their families.

It is our experience that many of those rural nonfarm families come to the cooperative to buy supplies and obtain certain essential services.

Due to the continued increase in the number of nonfarm families residing in rural areas it is becoming more difficult for local cooperatives to meet the eligibility requirements to borrow from the banks for cooperatives.

This is particularly true with the rural electric cooperatives.

Many of the older farmers who have been long-term members of local cooperatives have sold their farms and are now residing in or near small country towns or villages but wish to continue their voting because of their financial and personal interest.

These members, as well as their urban counterparts, although their interest may be intense, make little or no contribution as producers, and consequently make qualification standards for borrowing most difficult under present law.

I sincerely believe that the proposed amendment to the Farm Credit Act is necessary and essential and in the best interest of not only the farmers and rural residents of our country, but the Nation as a whole.

Thank you very much for the opportunity to present this testimony in support of H.R. 4782.

Mr. JONES of Tennessee. Thank you, Mr. Kahle, that was a very good statement.

We appreciate the time that you have devoted to being with us today.

Mr. Bob Hester, the director of the Farm Credit Bank of Louisville is next, and then, following Mr. Hester, will be Mr. Jay Skinner, Delaware, Ohio.

STATEMENT OF ROBERT P. HESTER, DIRECTOR, FARM CREDIT BANK OF LOUISVILLE

Mr. HESTER. Mr. Chairman, I thank you for this opportunity, and I would just like to say that, in addition to being director of the Fourth Farm Credit System, I am a full-time farmer, and I also have had the opportunity to serve as president of the board of Landmark Inc., a farm supply and grain cooperative in Ohio.

I have been involved as a director for some 25 years in different cooperative organizations, and I am both a director and a user of the system.

Our regional co-op, at the present time, serves some 65 locals throughout the State of Ohio, and some 80,000 farm members, so we do have quite a bit of input in Ohio.

I would just like to make a couple of points here in my testimony that I think are necessary, that farmers do need this type of legislation.

First, as was mentioned before, the grain that is sold to the co-ops amounts to some 40 to 50 percent, with only 10 percent of it being sent to the foreign markets.

I think this particular percentage has to be increased.

I also feel that the banks for cooperatives can provide a dependable source of credit. They have a proven track record, and I think that they can provide the technique that we need to have the proper financing for export facilities.

I would also like to relate that I am a 100-percent user of the farm supply co-ops, both in supply and in the farm marketing end. This is one reason that I feel I need this legislation all the more.

Our regional co-op at the present time sends 100-car trains to the east coast, and we have just completed building a barge loading facility on the Ohio River.

So, when you take these two things into consideration, I think the only thing that I, as a farmer, really am asking for is the opportunity to take it one step further, because we do have those kinds of facilities at the present time.

I think I, as a farmer, have the right to tap the profits between the farm gate and the ultimate consumer, and I feel very strongly about that. And that is the reason I am so in support of this type of legislation. This is the type of legislation that can help increase our profits.

I would also like to support the provisions in H.R. 4782 which would change the eligibility requirements for cooperatives to borrow from the bank for cooperatives.

As you know, in rural electrics, at the present time they have to have, maintain 70 percent of the voting rights by farmers. And this is presenting problems, because they do have to serve all the people in the area, regardless of whether they are farmers or not.

And this does present a problem, maintaining that 70 percent eligibility.

And we do have a similar situation in supply and marketing co-ops. There is, at the present time, 80 percent, and I would like to urge that you give this consideration.

That completes the summary of my statement. If you have any questions, I would certainly attempt to answer them at this time.

Thank you.

[The prepared statement of Mr. Hester follows:]

STATEMENT OF ROBERT P. HESTER
GRAIN FARMER
TRENTON, OHIO
DIRECTOR OF THE LOUISVILLE BANK FOR COOPERATIVES
FOURTH FARM CREDIT DISTRICT
OF THE FARM CREDIT SYSTEM

Mr. Chairman and members of the Subcommittee -- I am Robert P. Hester from Trenton, Ohio. I am a full time farmer, operating 700 acres, specializing in the production of corn, soybeans, and wheat. Additionally, I have a feeder cattle operation, marketing approximately 100 head of cattle annually. For many years I have been involved with agricultural cooperatives, both as a user and a director, including the Farm Credit System. I presently serve as President of the Board of Directors of Landmark, Inc., a cooperative based in Columbus, Ohio, which is a farm supply and grain marketing cooperative, having 65 locals serving approximately 80,000 farmers in the state of Ohio. I also serve on the Board of Directors of the Cooperative League of the U.S.A., and am a member of the Board of Directors of the Federal Land Bank Association of Eaton, Ohio. Other opportunities to serve cooperatives include a shareholder representative on the board of C. F. Industries, Inc., Energy Cooperative Inc., and as a trustee on the Ohio Farm Bureau Board of Directors. I have served as a member of the Executive Committee of the American Dairy Association, and Vice President of the Cincinnati Milk Sales Association. I am currently serving on the Board of Directors of the Louisville Bank for Cooperatives as an elected representative of the Bank's member cooperatives.

It is indeed a pleasure to have this opportunity to present testimony in support of H. R. 4782. It is my sincere belief that it is extremely important that the Farm Credit Act Amendments of 1979 be enacted into law. I further believe that this proposed legislation is in the best interest of farmers, the agricultural economy, and at the same time in the best interest of the nation.

Included in Section 1.1 (a) of the 1971 Farm Credit Act "It is declared to be the policy of the Congress, recognizing that a prosperous, productive agriculture is essential to a free nation and recognizing the growing need for credit in rural areas, that the farmer-owned cooperative Farm Credit System be designed to accomplish the objective of improving the income and well-being of American farmers and ranchers by furnishing sound, adequate, and constructive credit and closely related services to them, their cooperatives, and to selected farm-related businesses necessary for efficient farm operations."

Keeping in mind the intent of the Farm Credit Act of 1971, I would direct my comments in support of the proposed amendment in Title III of the 1971 Farm Credit Act which, if adopted, would permit the Banks for Cooperatives to provide financing and related services to their borrowing cooperatives to facilitate the exporting of grain and other agricultural products. By maximizing our efforts in exporting grain and other farm products this will make a significant contribution to our nation's balance of payments.

As a farmer and a board member of a borrowing cooperative, I recognize as you do the significance of the agricultural export market which is certainly important to both the farmer and is in the best interest of the nation.

Farmers across the nation have agreed for a long time that their cooperatives need and should take a more active and direct role in marketing their products to foreign buyers. We are all too well aware that approximately 40 to 50 percent of the farmer's grain is initially sold to his

cooperative while only 10 percent or less is sold to foreign buyers through his cooperative marketing organization. It makes sense that once the farmer markets his grain to a cooperative, he would expect his cooperative marketing organizations to continue to move his grain through cooperative marketing channels to its final destination. Obviously, this should result in providing the farmer the opportunity to maximize his net farm income. It has been established that important criteria in merchandising grain to foreign buyers include being able to provide large quantities of grain of acceptable quality and being able to offer financing and other related services to the prospective foreign buyer. Without question, cooperatives can provide the quantity and quality of grain demanded by the foreign buyers and can serve as a dependable source of grain. However, to be able to be most competitive, cooperatives need support in the way of financing and related services from the Banks for Cooperatives. The Banks for Cooperatives have a proven track record of being a dependable source of credit for their cooperatives. In addition, the Banks for Cooperatives provide important counsel and guidance much to the benefit of the cooperatives and their farmer members. In order for their cooperatives to take a more active and direct role in exporting their products to foreign buyers, the cooperatives are requesting that the Banks for Cooperatives, as their principal lender, support this effort by providing financing and certain other related services to facilitate their exporting effort.

Consequently, I strongly urge that Congress act favorably in their consideration of expanding the authority of the Banks for Cooperatives to provide this financing and related services.

Next I would like to indicate my support of the proposed provision in H. R. 4782 which would change the eligibility requirements for a cooperative to borrow from the Banks for Cooperatives. Presently, rural electric cooperatives and other utility cooperatives require that 70 percent of their voting rights be maintained by farmers, producers, or harvesters of aquatic products or eligible cooperative associations. Supply and marketing cooperatives are required under existing law to have 80 percent of their voting rights to be held by farmers, producers or harvesters of aquatic products or eligible cooperative associations. Since it was the intent of the 1971 Farm Credit Act that the Banks for Cooperatives provide financing and related services to cooperatives serving agriculture and others in rural America, it is necessary to change the voting requirement as the makeup of the rural population changes, providing that farmer control is maintained. For the past few years the Banks for Cooperatives have been providing much needed alternate sources of financing for rural electric cooperatives. It is becoming increasingly difficult for rural electric cooperatives to meet or maintain their eligibility to borrow from the Banks for Cooperatives. This is due to the area coverage concept which simply means that the rural electric cooperatives are required to serve anyone living within their territory and at the same time permit all their users the right to vote in the affairs of their rural electric cooperatives. As a result, the rural electric cooperatives have no control over who is and who is not a voting member of their organization. Other types of agriculture cooperatives including farm supply and marketing cooperatives are also having similar eligibility problems because of the increased numbers of non-farm families moving to rural America. These non-farm families expect to be served by the rural electric cooperatives as well as other types of cooperatives providing certain

supplies, such as fertilizer, seed, and chemicals that may be used on their lawn, gardens, etc. Consequently, the cooperatives do have an obligation to provide goods and services for these persons, although many times it does create problems as far as maintaining eligibility to borrow from the Banks for Cooperatives.

It is important to recognize that this change in eligibility requirements would not in any way violate the principle of farmer control and would allow the Banks for Cooperatives to serve these businesses within the intent of the 1971 Farm Credit Act. Further, each board of directors of the Banks for Cooperatives would have the option of setting higher eligibility requirements within their Farm Credit district if appropriate.

In summary, as a farmer, I purchase 100 percent of my supplies through my farmer cooperative and market 100 percent of my livestock and grain through my local and regional cooperative. My regional cooperative has just completed a barge loading facility and all I'm asking for is to take the grain one step further. We are constantly sending 100 car trains to the east coast and, I feel I should have the right to tap the profits between the farm gate and the ultimate consumer.

Therefore, I believe strongly that it is in the best interest of farmers and their cooperatives and the nation that the proposed Farm Credit Amendments of 1979 receive favorable consideration by Congress.

Mr. JONES of Tennessee. Thank you very much, Mr. Hester.

We do appreciate your being here today, and if we do have the time we will call some of you back for some questions.

Thank you.

Mr. HESTER. Thank you.

Mr. JONES of Tennessee. Mr. Jay Skinner of Delaware, Ohio, we are glad that you are here, and you may proceed.

STATEMENT OF JAY SKINNER, GRAIN FARMER, DELAWARE, OHIO

Mr. SKINNER. Mr. Chairman, and members of the subcommittee, I am Jay Skinner from Delaware, Ohio.

I am a full-time farmer, operating 2,200 acres, including the production of 2,000 acres of soybeans and corn.

We have been involved in this family farming operation for 30 years.

I am presently affiliated with two local agricultural cooperatives, and I am a director of a locally owned bank.

Also, I have been director of Ohio Farmers Grain Corporation, Inc., since 1968, and for 3 years of that time I have served as chairman of the board of directors.

I have also served 3 years as a director of Midstates Terminals, Inc., Toledo, Ohio.

Since the primary source of income on our family farm is from the production of grain, I am vitally interested in any measures which may lead to increasing our net income, as well as other grain farmers throughout the Nation.

Therefore, I strongly support the provision in the Farm Credit Act Amendments of 1979 which provides that the banks for cooperatives expand their authority to provide financing and related services to facilitate the export of grain and other agricultural products.

Being affiliated with and a strong supporter of agricultural cooperatives in Ohio, it is my firm conviction, and that of many other farmers with whom I have discussed these proposed amendments, that this legislation will enhance the position of the Ohio Farmers Grain Corporation, Inc., and its affiliated organizations, Mid-States Terminals, Inc., Toledo, Ohio, in the exporting of grain produced in the State of Ohio.

As I am sure others have testified, any provision which would enhance and improve the export of agricultural products is undoubtedly in the best interest of our Nation.

The proposed change in legislation permitting the banks for cooperatives to become more involved in financing agricultural exports has been the result of a need recognized by the grain farmers across the country, which, in turn, have demonstrated the need on behalf of their grain marketing cooperatives to request the banks to obtain this much needed legislation.

I am convinced that no one can provide the service to the economical advantage of agricultural producer and consumer as well as our own banks for cooperatives.

They have a proven track record dating back to the early 1930's of providing wise and necessary counseling.

The banks for cooperatives have been instrumental in the growth and development of agricultural cooperatives, much to the benefit of the family farmers located across this Nation.

Because of increasing large investments needed to begin farming, it has become more difficult for a young man to be a farmer. It is very important to the farmers of this Nation that we do whatever we can to encourage and financially aid the young beginning farmer so that sufficient amounts of food will be produced for our people.

Therefore, I believe that these amendments would be much help in that the banks for cooperatives would better serve him.

It doesn't make sense for exporting cooperatives to be able to obtain financing and financial related services from their banks for cooperatives up to a point and then either obtain the necessary financing and related services to complete the transaction or to turn the grain over to someone else to facilitate the movement of grain to its final foreign destination.

Cooperatives involved in exporting of agricultural products need their banks for cooperatives to establish correspondent relationships with foreign banks to be involved in the purchase and sale of bankers acceptances, to engage in currency exchange, and certain other authorities for the benefit of these cooperatives and the family farmer they represent.

As I understand it, when the 1971 Farm Credit Act was adopted, it was recognized that there would be a need to continually update credit and other related services being provided by the Farm Credit System to meet the changing needs of agriculture and the Nation's agricultural cooperatives.

This legislative proposal, in my opinion, carries out the intent of the 1971 Farm Credit Act and is essential for the continued well being of the family farmer, as well as being extremely beneficial to our Nation's economy.

Therefore, I strongly support H.R. 4782.

Mr. Chairman and members of the subcommittee, thank you for permitting me to present my views concerning these very important and necessary amendments to the Farm Credit Act.

Mr. JONES of Tennessee. Thank you very much, Mr. Skinner. A very good statement and we do appreciate the time you have spent to come here today.

Our next witness is Mr. Dean Simeral, the vice president of public affairs of the Ohio Farm Bureau, Columbus, Ohio.

Mr. Simeral, we are delighted that you could be with us today. You may proceed.

STATEMENT OF DEAN W. SIMERAL, VICE PRESIDENT FOR PUBLIC AFFAIRS, OHIO FARM BUREAU

Mr. SIMERAL. Thank you, Mr. Chairman, and members of the subcommittee.

Before presenting my statement, I have been asked by Robert Cleveland of the Ohio Rural Electric Cooperatives to convey for him the strong support of the rural electric cooperatives of Ohio for the 60 percent eligibility requirement as contained in the bill.

With your permission, rather than elaborating on that, I will file this letter and its contents with the committee.

Mr. JONES of Tennessee. Without objection, it will be made a part of the record.

[The letter referred to above follows:]



OHIO RURAL ELECTRIC COOPERATIVES, INC.

P.O. BOX 29149 • 6677 BUSCH BLVD. • COLUMBUS, OHIO 43229 • PHONE (614) 848-5757

November 8, 1979

Dean W. Simeral
Ohio Farm Bureau Federation, Inc.
35 East Chestnut Street
P. O. Box 479
Columbus, OH 43216

Dear Mr. Simeral:

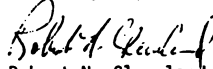
Our understanding is that you will be testifying November 10, 1979, in Champaign, Illinois, regarding the eligibility requirements to borrow funds from the Banks for Cooperatives. Please include support for this effort by Ohio's 28 rural electric cooperatives in your testimony.

You may transmit this letter to the committee expressing our support for the proposed 60% of farmer membership required for eligibility to borrow from a Bank for Cooperatives. Presently the rural electric systems utilize 70%. The National Rural Electric Cooperative Association accepted at its annual meeting in Houston, Texas, this year Resolution D-8 which suggests a reduction to 51%. Although we are in accord with our national association's policy, we believe that this step to 60% is in the right direction and should be supported by the committee.

If, in the committee's wisdom, it recommends a lower percentage as it progresses in its deliberations, we also would support that effort.

We believe these field hearings will further substantiate the need in our country for this change in the eligibility requirements to borrow from a Bank for Cooperatives.

Sincerely,


Robert N. Cleveland
President

RNC/ee

Enclosures

PROPOSED 1979 RESOLUTIONS

NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION

37th ANNUAL MEETING - FEBRUARY 18, 19, 20, 21, 22, 1979

HOUSTON, TEXAS

PREAMBLE

"NEW ERA IN ENERGY"

Energy always has been the keystone of the rural electrification program in this nation.

For our consumer-members, it has been the availability of reliable and adequate supplies of electric energy that has brought an end to so much of the pain and drudgery of manual labor, and played a key role in bringing vast improvements in the overall quality of life for the farmers, ranchers and other co-op members throughout the nation.

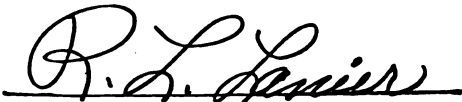
But electricity is by no means the only type of energy that has been important to the growth and success of this program.

In the earliest days, it was human energy -- the energy of rural people working to create a better life for themselves and their neighbors -- that was the vital ingredient in the formation of our distribution systems.

Time and again in the past four decades, it has been the strength and energy we've drawn from our cooperative foundations that has enabled us to survive the attacks and meet the challenges we have faced.

We are now entering a new era in energy -- a time during which many people believe electricity will become a much more precious and costly commodity. Maintaining adequate supplies of electric power at a cost our members can afford during the difficult years ahead undoubtedly will be the most challenging task we ever have faced.

In our search for solutions to these energy supply problems, we must never overlook nor underestimate the important contribution that can be made by the human energy and cooperative strength that have meant so much to our program thus far. People power and co-op power -- these are the renewable inexhaustable and well-proven sources of energy that will be our key to a New Era in Energy.



R.L. Lanier, Chairman
Resolutions Committee

NRECA Annual Meeting 1979

FROM: Legislative Committee
Resolution No. D-8 (Continued)

for Cooperatives. We support efforts by the Farm Credit System to further modernize their charter Act as these organizations are vital to the well-being of agriculture, rural America and cooperative organizations. We recommend to Congress that as it considers any legislative package that the farmer membership required for eligibility to borrow from a Bank for Cooperatives be reduced at least from the present 70% to 51%.

RESOLUTION NO. D-9

FROM: Legislative Committee
APPROVED BY: Resolutions Committee
SUBJECT: Financing for Hydro Generation

We recognize the urgent need for the development of additional electrical generation utilizing renewable resources such as conventional and pumped storage hydroelectric generation with the resultant conservation of exhaustible mineral resources. This is an integral part of the President's energy package.

We also recognize that the cost of power from hydroelectric generation is not subject to the inflationary effects of fossil fuel costs; hence, the use of such generation reduces the magnitude of electric rate increases.

Because of the lack of favorable financing arrangements available to REA-financed cooperatives limits or even prohibits development of these types of projects, we urge the Rural Electrification Administration to study the feasibility of financing hydroelectric generation, with lower interest rates and longer amortization periods than currently available, which will result in power production costs at levels equal to those of similar projects developed by public bodies which finance with tax exempt bonds.

RESOLUTION NO. D-10

FROM: Legislative Committee
APPROVED BY: Resolutions Committee
SUBJECT: Farm Price Equity

The combination of low prices farmers receive for their products and the extremely high costs they are forced to pay for equipment and supplies has brought about an economic situation which is disastrous for American agriculture and ultimately to consumers of farm products.

NRECA Annual Meeting 1979

FROM: Legislative Committee
Resolution No. D-6 (Continued)

We urge maintenance of the current ratios between REA and concurrent loans. We oppose any effort to deny G&T systems their legal eligibility for insured loans.

RESOLUTION NO. D-7

FROM: Legislative Committee
APPROVED BY: Resolutions Committee
SUBJECT: Guaranteed Loan Program

Public Law 93-32 provides REA the authority to guarantee loans. These loans are estimated to be \$7.5 billion during the current fiscal year, or about 85% of the total REA loan program. The REA loan guarantees are uniquely advantageous in providing financing for essential generation facilities for rural consumers without incurring any costs whatsoever to the government. The loans are largely supplied through a favorable agreement with the Federal Financing Bank at market rates of interest and represent no cost in interest differential. Participation in REA loan guarantees by the FFB is favorable both to the government and to rural electric systems and should thus be continued without change.

Costs resulting from loan defaults in REA guarantees are zero since none have occurred. Neither are there costs resulting from operational assistance and administrative costs are more than offset by the interest surcharge imposed by the FFB.

Therefore, the REA loan guarantees provide financing for essential generation facilities in an expedient manner and without cost to the U. S. government. They should continue to be made available at adequate levels and without statutory limitations and we commend the Administration for indicating in the 1980 budget request, a realistic guaranteed loan level.

RESOLUTION NO. D-8

FROM: Legislative Committee
APPROVED BY: Resolutions Committee
SUBJECT: Farm Credit Legislation

We understand that the Farm Credit System is considering making recommendations to Congress for several alterations in the Farm Credit Act of 1971, including a new look at the eligibility requirements to borrow from the Banks

Mr. SIMERAL. Thank you very much, Mr. Chairman.

We appreciate this opportunity to present comments on a number of issues and provisions related to H.R. 4782, a bill to amend the Farm Credit Act.

The Ohio Farm Bureau has always been an advocate and supporter of the Farm Credit System, including strong support of the amendments to the Farm Credit Act of 1971.

Our present policy is a general support policy that reads as follows:

Agriculture has become a capital-intensive type of business, with critical needs for investment.

We see a need for additional farmer investment in forward integration projects, including processing of agricultural products, grain export facilities etc.

We recommend the Federal Farm Credit System continue to provide credit to meet the farmer's needs, including acquiring interest in farmer-owned forward integration projects.

You notice from the above policy statement that we are presently on record in support of one provision in H.R. 4782, namely, the provision identified in the summary of the bill as prepared by the Congressional Division of the Farm Credit Administration, "Finance processing and marketing activities of bona fide farmers."

This is the only specific reference in current policy to provisions in H.R. 4782.

The balance of my comment will be based on the recommendation our policy development committee will make to the delegates to our annual meeting.

The delegates to our annual meeting will adopt Ohio Farm Bureau policy and make recommendations to the American Farm Bureau Federation for national policy.

If the delegates at our annual meeting adopt that which will be recommended by the policy development committee of the Ohio Farm Bureau Federation, Inc., the following policy relating to this bill, H.R. 4782, will be recommended for inclusion in American Farm Bureau policy.

The Ohio Farm Bureau recommends support of the following provisions of H.R. 4782:

1. Cooperative eligibility. To lower the farmer-member eligibility requirement to 60 percent of voting members.

The need and justification for this change in current law has been adequately expressed to this and the Senate subcommittees.

2. On the 85 percent lending limitation for Federal land banks, to allow Federal land banks to make loans in excess of 85 percent of appraised value of the real estate where guarantees are provided by other governmental units.

We will question, however, if the "in excess of 85 percent" should be permitted to go to 100 percent for purchase of land.

3. On finance processing and marketing activities of farmers, to broaden eligibility for financing by Federal land banks and production credit associations to include processing and marketing activities. We believe this idea originated in Ohio, which we have stated as "permitting Federal land banks and production credit associations to make loans to farmers for the purpose of their investing in forward integration projects, including processing of agricultural products, grain export facilities, etc."

4. On bank for cooperatives export finance, to authorize banks for cooperatives to finance agricultural exports.

We believe that farmer cooperatives should be more actively and directly involved in exporting our farm products.

In addition, we recognize the need for various kinds of financing of cooperative exporting activities.

We believe the banks for cooperatives should be involved.

The Ohio Farm Bureau will recommend for American Farm Bureau policy that:

1. Since the subject of incorporating system service entities is included in the bill, now is an appropriate time to raise questions and voice objections to any insurance activities, present or contemplated, that was not intended when authorized by the 1971 amendments.

The legislative history of the 1971 amendments should be studied at appropriate language inserted to insure the legislative intent is followed by the system.

2. On loss sharing, to authorize all farm credit institutions to enter into general loss sharing agreements.

We recognize that capital preservation agreements are an important means of enhancing the capital viability of the system.

However, with new or expanded authorizations, such as aquatic business and export financing, this provision needs careful review and wording.

Our concluding comment would be that we have been privileged to review considerable testimony on this subject.

Questions have been raised about whether or not certain language in the bill would permit activities or action beyond that which was intended.

Various supporters have responded to these questions with "it is not our intent" or "that will not be considered."

As a general observation, if questions are raised about intent or actual authorization, it is good legislative procedure to try again to develop language that more clearly states intent or identifies what is not intended or authorized. Thanks for this opportunity, Mr. Chairman, to present our views.

Mr. JONES of Tennessee. Thank you, Mr. Simeral.

Your statement will be given much consideration.

Thank you very much.

The next witness is Mr. Glenn Franklin, Indiana Farm Bureau Cooperative, Indianapolis, Ind.

STATEMENT OF GLENN FRANKLIN, EXECUTIVE VICE PRESIDENT, INDIANA FARM BUREAU COOPERATIVE ASSOCIATION INC.

Mr. FRANKLIN. Mr. Chairman, and members of the subcommittee, I am Glenn Franklin, executive vice president of the Indiana Farm Bureau Cooperative Association, Inc., Indianapolis, Ind.

Indiana Farm Bureau Cooperative Association is a regional farm supply cooperative serving 100,000 farmers through 71 local member cooperatives.

Indiana Farm Bureau Cooperative Association was formed in 1927 as a farm supply cooperative and in 1950 merged with the Indiana

Grain Cooperative, thus becoming both a farm supply and marketing association.

The major portion of Indiana Farm Bureau Cooperative Association's supply business is in petroleum, fertilizer, crop chemicals, livestock and poultry feed and farm building supplies.

Practically all of its marketing volume is in grain.

During fiscal 1979, ending August 31, 1979, the cooperative marketed 183 million bushels of grain, most of which was produced on Indiana farms.

Of this volume, 97 million bushels were sold for export.

The grain division operates export grain facilities at Chicago, Ill., Baltimore, Md., Louisville, Ky., Cincinnati, Ohio, and Evansville, Ind.

In partnership with several other regional farmer cooperatives, the grain division also exports grain through Mid-States Terminals Inc.'s Toledo elevator and through Farmers Export Grain Cooperative's elevator at Ama, La.

It is our feeling and that of our members and the farmers that it is imperative we operate these facilities to export our farmers' grain and that farmers must control their products as long as possible in the marketing chain.

The further that control can be extended, the more farmers will benefit.

The need for capital to conduct our export business is substantial and makes us the sixth largest customer of the bank for cooperatives.

Indiana Farm Bureau Cooperative Association Cooperatives enjoy a one-quarter billion dollar line of credit through the Louisville Bank for Cooperatives.

However, the bank for cooperatives is limited in its ability to lend money for export to cooperatives.

For the above reasons, I am pleased today to present testimony in support of H.R. 4782.

I believe that proposed Farm Credit Act Amendments of 1979 will permit the Farm Credit System to fully carry out Congress' intent when it stated the following policies and objectives of the Farm Credit System:

It is declared to be the policy of the Congress recognizing the growing needs for credit in rural America that the farmer owned cooperative farm credit system be designed to accomplish the objective of improving income and well being of farmers and ranchers by furnishing sound, adequate, and constructive credit, and closely related services to them and their cooperatives.

One of the ways by which this intent of Congress can be carried out is through the entry of the banks for cooperatives into the export financing field.

The proposed amendments of 1979 contain provisions which would enable banks for cooperatives to do just that. If passed, the amendments would have a far-ranging effect on our cooperative, our members, and farmers.

In response to the need to expand markets for agricultural products for its members, Indian Farm Bureau Cooperative Association has been an exporter of grain for a number of years.

First, out of our Chicago facility; and then, our exports were expanded by the purchase of a facility in Baltimore.

We later joined Farmers Export, and either constructed or purchased river loading facilities along the Ohio River.

Our domestic system has developed to the point that we must now turn to investment in foreign countries to become more effective.

Our objective is to become a dependable source of supply for export customers.

And thereby help maintain good outlets for the products we market on behalf of our members.

Sales made early in our export efforts were on an FOB point of shipment basis.

However, as sales have expanded, different methods of selling and collecting have been utilized in order to be competitive with other exports and in order to be of the best service to our best export customers by providing different terms of sale. We have been able to expand our export sales.

This has been important to our farmer members who have found that our ability to move grain into export markets has helped in stabilizing domestic prices and has provided additional service that Indiana Farm Bureau Cooperative Association as a cooperative can provide to its members.

We plan to aggressively seek to expand export marketing of our members' grain. Our board of directors feel it is in the best interest of our members for Indiana Farm Bureau Cooperative Association to continue to be aggressive in world trade.

We are committing additional assets to this end.

As an example, Indiana Farm Bureau Cooperative Association, along with six other North American cooperatives, have joined four European cooperatives in forming Intrade, Inc.

Intrade, Inc. is in the process of completing the purchase of 50 percent of a major European commodity trading company.

Through this undertaking, our goal is to maximize our cooperative's position as much as possible in export marketing.

This goal arises from the efforts of U.S. farm marketing cooperatives to seek the best price possible for their members.

The inflationary spiral of agricultural input costs leaves farmers with only two choices; increase production and attain economics of scale on their farms, or obtain a larger share of the consumer's expenditures for food and fiber.

Studies indicate that farmer cooperatives originate almost 45 percent of U.S. grain, but handle less than 10 percent of the export sale level.

Our farmer members are asking us to do a better job in this area by increasing cooperatives' market shares in the export market.

It is our belief that the bank for cooperatives, given legislative authority, can be a positive factor in assisting farmer cooperatives in expanding their share of export trade.

Our Nation's policy of trade expansion will be supported by favorable consideration of the Farm Credit Act Amendments of 1979.

The export financing provisions are consistent with longstanding congressional intentions that banks or cooperatives should serve fully the credit and financially related needs of America's farm supply and marketing cooperatives.

The banks for cooperatives have built a strong experience base in dealing with cooperatives. Cooperatives are moving into world trade to a greater extent each year and need the assistance of a cooperative banking system to which they are so closely tied to be successful.

Now our member owned banks can only carry our financing to the point of export. It is a logical extension of the banks for cooperatives' services to follow their member borrowers into international trade.

We, at Indiana Farm Bureau Cooperative Association, see opportunities to more rapidly expand into world trade if the Farm Credit Act Amendments of 1979 are passed.

We feel secure in speaking for other cooperatives engaged in the export marketing of over a dozen different U.S. commodities to many different countries abroad as well.

To gain an effective ability to assist its members in financing their transactions in foreign trade, banks for cooperatives need the authority to establish correspondent relationships with foreign banks to expedite payments and collections.

In the case of Indiana Farm Bureau Cooperative, as we rapidly expand our export sales, the use of our cooperative banking system to facilitate transactions will help us manage our cash more effectively.

Indiana Farm Bureau Cooperative Association and other cooperative firms have found that the best arrangement for certain types of international ventures is through investment in subsidiaries or by establishing certain trade relationships.

Presently, banks for cooperatives are prohibited from assisting their members in such cases.

In those cases where substantial benefits would result to the cooperative from such financing, it seems to us that banks for cooperatives' participation should be permitted. Such authority would simply allow U.S. cooperatives to further utilize their own banking system.

The purpose of my testimony is to seek from Congress added flexibility for the banks for cooperatives' system which will allow the banks to better serve cooperatives in the export market.

I can speak personally as to the benefits of the cooperative banking system to cooperatives. Looking ahead, we hope the subcommittee will see fit to approve the proposed legislation, giving new authorities needed by banks for cooperatives to continue to effectively serve cooperatives at all levels.

Indiana Farm Bureau Cooperative Association is grateful for this opportunity to express its views before this subcommittee on Farm Credit Act Amendments of 1979 and wishes to go on record as being in favor of this proposed legislation.

Mr. Chairman, I have a prior commitment for late this afternoon in northeastern Indiana.

I respectfully request an opportunity, if there are questions, to answer them at this time.

Thank you, Mr. Chairman.

Mr. Jones of Tennessee. Thank you very much, Mr. Franklin.

I have only one question that I would like to ask.

In your statement, you said, "studies indicate that farmer cooperatives originate almost 45 percent of U.S. grain, but handle less than 10 percent at the export sale level."

The thing that I am asking, is, are those studies available to the subcommittee?

Mr. FRANKLIN. Yes, sir, those studies were made by the—what was formally called the Farmers Cooperative Service of the U.S. Department of Agriculture.

Mr. JONES of Tennessee. Would you attempt to provide those studies for us in order that that would probably encourage some members of the subcommittee to see the real need for this part of the package.

Mr. FRANKLIN. I would be more than pleased to, and I think I also have some data from a survey that was made by a consulting firm for we cooperatives that are in this joint cooperative venture.

Mr. JONES of Tennessee. We would appreciate that material if you have it, and we'll make it a part of the record.

Mr. FRANKLIN. May I send them to your attention, sir?

Mr. JONES of Tennessee. Yes, you may.

Mr. FRANKLIN. And how many copies would you like?

Mr. JONES of Tennessee. One copy is sufficient.

[Material follows:]

LET'S GET OUR GRAIN EXPORTING TOGETHER!

(By James Haskell, Michael Phillips, Stanley Thurston, and David Volkin, Agricultural Economists, Farmer Cooperative Service)

Economic factors influencing the grain industry have changed considerably in the past few years. Prior to 1972, the level of grain prices was largely determined by the government. Prices were depressed by huge surpluses even though 60 million acres of land were in retirement. Millions of bushels of grain were held in storage by the Commodity Credit Corporation. Incomes of grain producers were more closely correlated to the loan value and Government stocks than with competitive market factors.

Conditions changed rapidly during 1972. Crop failures due to bad weather in many parts of the world created strong foreign demand almost overnight. Surplus grain began to disappear and farm prices started to rise. Grain producers responded to this signal by increasing production. Exports suddenly became the prime determinant of the level of prices. The value of exports increased to more than \$21 billion in 1974 from about \$7 billion in 1972. The percent of U.S. grain production moving into foreign markets increased from 30 percent in the 1960's to more than 40 percent today. In 1973, we exported roughly 75 percent of our wheat, 55 percent of the soybeans, 35 percent of the corn and 30 percent of the milo.

While the high level of exports of the mid-seventies was at least in part due to unfavorable weather, it is generally agreed that a long-term closer supply demand balance does appear to be with us. While variations in export demand will undoubtedly continue to exist, indications are that grain exports will continue at a generally higher level and therefore remain a major determinant of farm prices in the future. USDA economists estimate that the United States will be exporting more than 3 billion bushels of grain by 1985. This would triple what was exported in 1960 and double the level of exports in 1970.

With this new situation emerging, the questions being asked are: Will producers, through their cooperatives, step into the marketing picture as the Federal Government role diminishes? Should they strengthen their presence in the export market? What will the export market look like for individual grains? Will the market of the future be different from the present market? Who will be our best customers? Let's first look briefly at some of these questions for wheat, feed-grains,¹ and soybeans.

Wheat.—World demand for U.S. wheat is expected to exceed pre-1972 levels with a good possibility of record volumes by 1985. The configuration of the

¹ Corn grain sorghum, oats, barley, and rye. Corn and sorghum make up over 90 percent of feedgrain volume.

market is expected to change however. Substantial demand reduction in a major market for U.S. wheat—the nine countries comprising the European Common Market—is a distinct possibility. Also, purchases by the U.S.S.R. are expected to decline from 1972 levels. On the other hand, two of our largest customers—Japan and East Asia—should significantly increase their demand for wheat.

Feedgrains.—Demand projections for feedgrains show a minimum demand near the 1973 level and could be at record levels by 1985. Again, we are faced with the possible loss of the Common Market, presently our largest customer for feedgrains. Exports to the U.S.S.R. and the Peoples Republic of China (PRC) are also expected to drop by 1985. On the bright side, there should be a major increase in feedgrain demand by Japan, at present our second largest customer.

Soybeans.—The future for soybean exports is encouraging. USDA demand estimates show record export levels by 1985. No loss of major U.S. markets is expected. Two of the three largest importers of U.S. soybeans, the Common Market and other Western European countries, will increase soybean demand from the United States. Japan should maintain imports at about 1971 levels. Possible declining markets in the PRC and U.S.S.R. would have little effect on total exports because those soybean markets have not been significant in the past.

COOPERATIVES' POSITION IN THE GRAIN EXPORT MARKET

Many grain merchandising and processing firms do some overseas business but a handful dominate the U.S. grain export industry. Five companies currently export more than 80 percent of the grain from the United States. Three of these exporters had sales that individually are four times as large as the combined export sales of the four largest regional grain cooperatives.

The large exporters are multinational companies with sales offices and processing plants in major regions of the world. They can procure grain from any grain producing country in the world. They are diversified companies dealing in such varied industries as leather goods, pet food, termite control, insurance, and fishing fleets. They all have extensive, worldwide market intelligence systems. And they have maximum flexibility in terms of product mix, port locations, and market access.

Not only do these five firms dominate the U.S. grain export industry, but they also control a significant portion of the total world trade in grain. For example, more than 80 percent of the world's import demand for soybeans is supplied by these five companies—with U.S. soybeans alone. They also account for smaller, but significant, shares of the world market in wheat and feedgrains, just with grain produced in the United States. More than half of the world's total imports of grain is shipped from this country by these five companies.

In contrast, cooperative presence in the grain export market is barely noticeable. Cooperatives are relatively strong at the local level, but their market position deteriorates rapidly as they move toward the export market. At the local level, cooperatives handle about 40 percent of farm grain sales. Regionals get only half the grain the locals handle. Cooperatives place nine percent of farm sales in a position to export but directly export only 3 percent.² With 40 percent of farm sales moving into the export market, this amounts to about 7½ percent of total grain exports. This represents the combined market share of 5 cooperatives with the largest cooperative having a market share of less than 3 percent.

Cooperatives actually originate and handle more grain than their direct export share might indicate. Regional cooperatives move more than 25 percent of U.S. export grain to a port position, put 14 percent through their own port elevators, but directly export only 7½ percent. This means cooperatives export on a direct basis only 30 percent of the grain they move to a port position. The other 70 percent is sold to other grain companies that then merchandise the grain direct to the consuming world area.

Why do cooperatives turn over such a large proportion of their grain to other exporters? Why do cooperatives sell 85 percent of their wheat, 64 percent of their soybeans, and 63 percent of their feedgrains to other exporters? There are a number of reasons. Some regional (1) do not have access to cooperative export facilities, (2) experience less risk as compared to direct sales, (3) are unwilling to coordinate efforts with other cooperatives, (4) lack economies of size, (5) lack

² Direct exports are sales to foreign buyers located and doing business in the consuming areas of the world.

marketing expertise, and (6) fear the unknown in selling direct to foreign buyers.

Even the strong position of cooperatives at the local level is being tested in some areas of the Mideast. During the past year, the construction of nine sub-terminal elevators with unit-train capabilities have been announced by grain companies. These elevators will compete with both local and regional grain cooperatives. The trend toward increased origination of grain at the local level by the major grain exporters has suddenly been thrust upon the cooperative sector. The total system approach to grain marketing is a reality for the large grain companies. The question is whether grain producers can build their own system that can compete in the grain industry of the future.

COOPERATIVES COMPARED WITH THE INDUSTRY

For the portion of cooperative grain exports that are sold on a direct basis, comparisons with major grain exporters can be made with regard to type of market, terms of delivery, and methods of establishing connections.

Type of market.—Exporting firms operate in basically three types of markets: The open market, which allows for negotiation between buyers and sellers and is typical of Western Europe; the public tender market, which is strictly on a bid and acceptance basis and used when dealing with State trading nations and the private tender market which is the same as public but bidding is limited to a select group of sellers. Most cooperative sales are made in the open market. In contrast, more than 75 percent of the U.S. wheat is sold on a public tender basis. The trend for feedgrains and soybeans is also toward a public tender market. This trend has serious implications for grain cooperatives because their participation in tender markets has been virtually nil.

Terms of delivery.—These are the conditions under which grain is to be delivered to the buyer. The most common terms are f.o.b. (free on board) ship in the United States and c.i.f. (cost, insurance and freight) at foreign port. While cooperatives deliver almost exclusively on an f.o.b. basis, the major exporters deliver about 40 percent of their wheat sales and 50 percent of their feedgrain and soybean sales on a c.i.f. basis. The remainder is delivered f.o.b. Cooperatives sacrifice flexibility and potential loss of sales because of the financial risks inherent in c.i.f. sales.

Establishing connections.—Cooperatives establish connections with foreign buyers through commissioned agents. Major exporters have their own overseas sales offices and staffs. Not only do these offices serve as a direct link between buyer and seller, but they also provide valuable market information as a part of the exporters' worldwide market intelligence systems. With cooperatives not having any overseas sales offices or staff, they lack the personal contact with buyers and the vital market information that might flow from these offices.

In summary, cooperatives' present position in the grain export market is obviously weak. They have a very small market share; they are not in a position to make the type of sales that will exist in the future; they lack flexibility in delivery terms, and they lack overseas facilities and sales offices. There are more problems, and there are reasons why these problems exist.

WHY CAN'T COOPERATIVES EFFECTIVELY EXPORT GRAIN

The major problem in cooperative export activity is fragmentation and lack of coordination within the cooperative sector. Cooperatives in general have been unable to translate their relatively strong local position into export marketing benefits. In many cases, regional cooperatives have not seen fit to coordinate their efforts with neighboring regionals. Some are unwilling to equitably share facilities, sales agents, or market information. And some simply refuse to change the way they've been doing business. The net result is a largely uncoordinated effort with a few regional cooperatives vying for an export market share that collectively is smaller than the individual shares of most competitors.

Central to the coordination problem is the question of sharing export facilities. Producers who have put up their own hard earned cash to build an export house are finding it difficult to justify sharing these facilities with other producers—even if it means a more effective total job of marketing. Some producers have a feeling that their cooperatives are a more significant factor in the export business than the facts will support. Those who have created this illusion have difficulty confronting their producers with reality.

Independent decisions to build additional facilities also cloud the coordination issue. Some cooperatives can independently justify the need for additional export facilities because present facilities may be operating at capacity. But in many cases, this justification results from a fragmented approach to the export question. Maybe the farmers' money is not being put to the best use by building new export facilities. Perhaps it would be put to better use by coordinating existing facilities—then assessing the need for new facilities.

Even more difficult to understand is the situation where the "haves" are unwilling to coordinate facility use with the "have-nots" even though the facilities are being utilized at a fraction of their capacity. Nearly half of the cooperative port facilities are presently underutilized. Yet, efforts to get cooperatives to cooperate have met with little success.

The fragmentation and coordination questions do not end with export facilities. They extend to the unwillingness to share market information, sales strategy, agents, and transportation equipment. While the economic rationale for refusing to cooperate remains unclear, it is obvious that progress toward building a total cooperative grain marketing system will be stymied until such time the coordination problems can be overcome.

Another set of problems arises from lack of commitment within the cooperative sector. In large part, grain producers view their local cooperatives as "just another market" for their grain. Few have a formal obligation through marketing agreements to commit grain to their cooperatives. Likewise, local cooperatives are not obligated to deliver grain to the regional; nor is the regional required to deliver grain to a cooperative export organization.

Lack of commitment at all levels results in numerous problems for grain marketing cooperatives. Most relate to the fact that the cooperative cannot determine in advance how much or what kind of grain it will have to merchandise. Lack of formal commitment:

- (1) Reduces the ability to enter into increasingly common long-term contractual arrangements with both domestic and foreign customers.
- (2) Limits ability to participate in large, one-time sales.
- (3) Limits information on which to base price decisions.
- (4) Hampers long-term corporate planning.
- (5) Causes inefficient use of transportation equipment and physical facilities.

It must be pointed out, however, that commitment through marketing agreements, taken by themselves, are of little use. They must be used in combination with a total marketing system; one that is correctly organized and coordinated, has adequate facilities, and a well-conceived marketing program. Having a known supply of grain to sell without knowing how to sell it may present more problems than cooperatives face now.

More and more producers are beginning to recognize what marketing agreements can do for themselves and their cooperatives. If and when marketing agreement programs are finally combined with other needed changes, the cooperative sector might truly become a producers' marketing system.

Before that happens, cooperatives must face up to another critical problem—that is, the absence of a marketing information system. Regionals and even federations of regionals operate pretty much in absence of a solid information base. Exporting cooperatives rely mainly on commission agents for their information and intelligence. This is fed directly to the cooperative's traders who attempt to to use it without an economic analysis to evaluate it or analyze longer-run considerations.

Lack of information clearly contributes to cooperatives failure to adequately address the export market. With little or no information coming from foreign governments, from overseas sales offices, from a competent economic staff, and only selected information from competitors, it is easy to see why cooperatives fear the unknown and are unwilling to take on increased risk of c.i.f. sales and tender bids.

One organizational problem that relates to the fragmentation question is that of economies of size. Grain marketing is a highly capital intensive industry. It takes a lot of bushels to keep all the required facilities and transportation equipment operating at capacity and therefore at lowest cost per bushel. It also costs a lot of money to hire and keep the best possible management expertise, sales and research staff, and exclusive agents. No one regional cooperative has the volume to support this level of expertise. Unless grain regionals can coordi-

nate their efforts, they will either be operating inefficiently or with less than the best marketing talent.

Closely associated with problems of scale economies are those involving lack of flexibility. Cooperatives lack flexibility in terms of trade—99 percent of their exports are on a f.o.b. basis; they lack flexibility in type of market—little participation in public or private tenders; and they lack flexibility in product mix—no one cooperative handles all the major grains required by foreign countries. Again, it is not difficult to visualize cooperatives being shut out of markets that require a c.i.f. sale; a bid on a government tender; or delivery of both wheat and feedgrains.

SHOULD COOPERATIVES BE MORE INVOLVED IN THE GRAIN EXPORT BUSINESS?

This is a question that can only be decided by producers. Exporting grain, even with the best knowledge available, is a high-risk business. Cooperative exporters have done rather well the past 3 years in terms of returns to members. But it is all too easy to remember the years when grain exports were most unprofitable for cooperatives.

Farmers might, however, see reasons beside profits for their cooperatives getting into direct grain exports on a large scale. Since exports have become the major determinant of farm prices for grain, a cooperative presence in the export market could make domestic prices more responsive to changes in world demand conditions. Cooperative exporters would act as a barometer on the efficiency of the major grain exporters and reflect the earnings therefrom back to producers. A side benefit of such involvement could be improved intelligence on international marketing and therefore more effective domestic grain merchandising. Producers. A side benefit of such involvement could be improved intelligence on international marketing and therefore more effective domestic grain merchandising. Producers will have to determine if these and other benefits are worth the risk.

Farmers need to recognize, however, that the present fragmented cooperative approach to grain exports is not in keeping with the competitive potential of the U.S. grain producers in international markets. In other words, producers and their cooperatives could improve on what they have; with what they have.

WHAT ARE THE REQUIREMENTS TO ADDRESS THE EXPORT MARKET?

Emphasis has been placed on the fact that the major grain traders have recognized the marketing of grain as a system—a system that extends from procurement of grain in the country to the sale of grain to the final customer. Cooperatives, as yet, have not realized the need for a systems approach to grain marketing. Until they do, grain cooperatives will find their position in the grain industry slowly, but persistently, eroding.

So, what are the requirements for the development of a cooperative grain export system?

1. The number one requirement is to overcome fragmentation and lack of coordination within the cooperative sector. This can best be accomplished by working to establish a single export organization for all cooperative grain exports. Such a cooperative would control and coordinate existing cooperative port facilities and the flow of grain from the interior to and through those facilities direct to foreign customers. The formation of such a cooperative does not require that existing regionals be merged; only that their export facilities and marketing expertise be combined. Each regional would retain their identity. The export cooperative could greatly increase the volume of grain exported without adding to existing facilities.

2. The export cooperative and its member regionals need to adopt a sales strategy pointed toward increased direct exports. That strategy should emphasize cooperative strengths—origination of grain, reputation for quality grain, and fast and uniform ship loading. It should emphasize flexibility—in terms of trade and ability to accept marketing risks.

3. Cooperatives need to establish an aggressive, worldwide market intelligence system. It should include an information gathering network to provide the data, an economic analysis staff to interpret that data, and a sales staff to carry out the decisions. Formation of export sales offices are also a part of that system.

4. A system of marketing agreements will need to be developed. One advantage that the cooperative grain export system can have over the major exporters lies in potential control over grain from the time it is produced until it reaches the

buyer. That potential can be turned into reality by a system of marketing agreements. Such a program would assure a supply of quality grain for export and allow maximum marketing flexibility.

5. Each regional should share the cost of developing and operating the export system through capital contributions. Regional shares of that cost should be proportional to volume exported. Contributions could be in the form of direct investment, export asset transfers, and capital accumulation from export revenue.

THE BIG QUESTION

Producers are increasingly looking to their cooperatives to take the leadership in grain exports. It is time for those cooperatives who have their own niche in the industry to look at the entire picture. Every farmer is going to be a part of a grain marketing system. It's only a question of whether it's going to be his own cooperative system or someone else's. Today it is someone else's.

Mr. JONES of Tennessee. Mr. Madigan, do you have any questions?

Mr. MADIGAN. No. I recognize that we have a great many witnesses to go, Mr. Chairman.

But I would like to ask Mr. Franklin if we would want him to come to hearings subsequently, in Washington, would he be able to do that?

Mr. FRANKLIN. Yes, sir.

Mr. MADIGAN. The reference you made to several cooperatives going together and buying this half interest in the European trading firm may be something that we would want to explore in the subcommittee hearings, just to see why other things contained in this bill are necessary, if you have options like that available to you.

The only question is whether or not you would be available in the future.

Mr. FRANKLIN. Congressman Madigan, the closing for that venture, in acquiring this firm, is scheduled for November 30, 1979.

I would be more than pleased at any time it can fit my schedule—and I would be willing to alter it if possible—to go anywhere on the hearing.

Mr. MADIGAN. Thank you very much.

Mr. JONES of Tennessee. Thank you, Mr. Franklin.

And we will expect you to be responsible for providing those studies to us.

Mr. FRANKLIN. I will see that they are mailed the first of the week.

Mr. JONES of Tennessee. You are excused for the rest of the day.

Mr. FRANKLIN. Thank you.

Mr. JONES of Tennessee. Thank you.

Mr. Wayne Seaman of the West Central Cooperative in Ralston, Iowa.

STATEMENT OF WAYNE SEAMAN, GENERAL MANAGER, WEST CENTRAL COOPERATIVE

Mr. SEAMAN. Thank you.

Mr. Chairman, Congressman Madigan, my name is Wayne Seaman.

I am general manager of West Central Cooperative of Ralston, Iowa.

Ralston is a farming community located in West Central Iowa, with a populace of 90 people.

West Central is owned by 3,200 farmers and operates over a territory 120 miles east to west and about 40 miles north to south.

This year we will purchase, store, condition, and market approximately 20 million bushels of grain.

I've worked for this cooperative for 23 years and I'm a native of the community.

I went to work for the cooperative when I left the family farm, and my brother still farms the home place.

I deal directly with farmers every day. This is my life and this is my career.

The board of directors for West Central Cooperative is composed completely of owner-operators.

I am directly accountable to the board, which is accountable to the members.

This involvement with farmers and the grain business is the reason that I asked to testify here today. Our members want more direct exporting of their production.

Every year more and more questions are asked at our annual membership meeting about exporting. The members want to know what we are doing and why we aren't doing more.

The answers to those questions form the basis for my testimony today, urging your support and passage of the export provisions of the Farm Credit Amendments to the Farm Credit Act of 1971.

West Central Cooperative has attempted direct exporting and we want to do more. We have learned first hand that exporting is a complex business that demands a high level of expertise.

It would be too costly for individual local cooperatives to hire that expertise. However, we can work together and hire the necessary people through our regional cooperatives.

West Central Cooperative has sold soybeans directly to Japanese buyers, delivered as far as the west coast.

In addition, we have attempted direct sales to Taiwan, after request of representatives of that country.

We learned a great deal from our experience with Taiwan.

After their invitation, we began the process of completing the paperwork necessary in export trading.

Much of the difficulty arose from the sheer complexity of this paperwork. To complicate things further, we were forced to go outside of the farm credit system to complete the financial arrangements.

The banks for cooperatives worked closely with as far as they could, but in the end we had to turn to a large commercial bank for the final arrangements.

The commercial bank had to become familiar with us and our financial position before we could proceed. This took additional time that would have not been necessary if our primary lender, the bank for cooperatives, had been authorized to complete the transaction.

To summarize our experience, we were invited to bid by Taiwan, and spent a great deal of time on the paperwork and financial arrangements to submit a bid.

When we arrived in Taiwan, we found our name was not listed on the bid sheet, which was dominated by the large private grain trading firms.

In reviewing this effort, specifically the financial transactions, I believe two elements were missing: continuity and confidence between ourselves and the commercial lender involved.

The lack of confidence stemmed from the fact that the commercial lender is not familiar with our operations. The majority of our financing comes from the banks for cooperatives.

We are an owner of that bank which Congress established to help improve the income and well being of farmers and ranchers.

As direct exporting becomes a major part of our marketing efforts on behalf of our farmers and rancher members, it would be most advantageous for our farmer-owners to let our primary lender, the banks for cooperatives, finance those export transactions.

Over the last few years, we have been visited frequently by numerous foreign agricultural delegations. They are very aware that in our part of Iowa more than 80 percent of the grain moving off the farm originates through a cooperative.

They also realize that we can assure them a top quality product at a fair market price.

Foreign buyers are increasing their contact with cooperatives. We must be ready to take advantage of those direct sales opportunities.

On the financial side, therefore, we want the banks for cooperatives prepared to expedite the paperwork and other financial arrangements. Because they are familiar with our financial abilities and conditions, this is a logical step for the banks for cooperatives.

We are not asking them to get involved in anything that doesn't benefit us directly.

As indicated, the primary purpose of the West Central Cooperative is grain marketing. As a cooperative, we are committed to doing the best possible job for farmers, and that means maximizing their returns.

Any business attempting an export transaction is naturally going to want to work as closely as possible with their primary lender to secure the appropriate financial support.

As a cooperative, we depend on the banks for cooperatives as our primary lender.

We believe this is what Congress intends for their banks in their directive to the Farm Credit System to extend sound and constructive credit and related services to farmers, ranchers, and their cooperatives.

In addition to export financial services, we expect the banks for cooperatives to keep pace with our operations in other ways too.

For example, the transportation industry is the primary foundation of the grain merchandising business. The transportation industry is built on lease financing.

Leases give cooperatives more flexibility in managing their operations. Again, we feel it is logical to establish clear authorization for the banks for cooperatives to work with borrowing cooperatives on leasing programs.

This will involve transactions with third parties, but as the legislature indicates, only when a borrowing cooperative is the primary beneficiary of the transaction.

As the Farm Credit System has gotten larger, some groups have become critical of various aspects of their operations. I am satisfied that the banks for cooperatives have grown only in proportion to the needs of their stockholders.

As long as we own the banks and elect the directors, we can be assured that our financial needs will be met.

I urge your support of H.R. 4782.

This concludes my formal remarks, and I would be happy to answer questions.

Mr. Jones of Tennessee. Thank you very much, Mr. Seaman, for your statement, and we do appreciate your being here.

Mr. Brophy is the next witness, and he will be followed by Mr. Harold A. Apel of Lincoln, Ill.

**STATEMENT OF DAN BROPHY, ASSISTANT VICE PRESIDENT,
AGRI-INDUSTRIES**

Mr. BROPHY. Mr. Chairman and members of the subcommittee, I am Dan Brophy, assistant vice president with Agri-Industries, the Region Grain Marketing Cooperative for Iowa, headquartered in Des Moines.

We operate primarily in Iowa, with some membership in Minnesota and Louisiana. Our membership is composed of 350 local cooperatives, which are owned by more than 150,000 farmers.

During 1979 we will originate more than 280 million bushels of grain from our members. We expect to exceed 300 million bushels next year.

Our 350 cooperative members own at least 75 percent of the elevator storage and grain handling capacity in Iowa.

The principal business purpose of Agri-Industries is to provide the membership with alternative and competitive outlets for grain originated from their farmer/owners.

This effort to provide these competitive outlets has involved us deeply in transportation business. Agri-Industries now leases more than 2,000 hopper cars to help move members' grain. We also own, along with six other regional cooperatives, a share in Agri-Trans Corp., a large barge line operating along the inland waterways.

I have worked in the grain business for more than 6 years, including 5 years with Continental Grain Co. in St. Louis and Chicago, where I was a member of the Chicago Board of Trade.

I managed the trading and origination for Continental's export elevator at Norfolk, Va., and also worked on the export corn trading desk with Continental in New York.

I have been with Agri-Industries for a year and a half, responsible for soybean trading and managing and trading and operations of our Lake Charles, La., export facilities.

Agri-Industries sell both direct to foreign buyers and to other exporters. We own about 35 percent of Farmers Export Co., the largest cooperative-owned and the fourth largest U.S. exporter.

About 15 percent of our grain moves through Farmers Export facilities.

Allow me to come directly to the point in explaining Agri-Industries' support for the legislation before you.

First, I would point out that over 90 percent of our operating financing comes from the banks for cooperatives system.

As with any business, Agri-Industries is concerned that its financing requirements and day-to-day operating funds come from a banking source that knows our business and with whom we have had a long and stable relationship.

As our business grows, especially into exports where single transactions might involve \$10 to \$20 million and where market risks to Agri-Industries become correspondingly larger, we have come to depend even more upon a long-standing and stable banking relationship.

Obviously, we have this type of relationship with the banks for cooperatives.

We have every reason to expect a greater degree of service and cooperation from the banks for cooperatives than we would expect from any other banking source. We feel there is a legitimate place for the banks for cooperatives in financing our exporting activities, and we are strongly in favor of this enabling legislation for that reason.

Second, this legislation would permit the banks for cooperatives to participate as an equity lender in certain transactions involving direct benefits to its cooperative borrowers.

We at Agri-Industries see an immediate and significant benefit to the entire cooperative system from this provision of the legislation.

In the past, for instance, our long-term financing commitments on rail car leases have come from sources outside the cooperative system. Inherently, we have had no objection to turning to these sources.

However, two problems have continually arisen in these transactions which have not turned to our good.

First, we have encountered inordinate delays in completing the transactions as our equity lenders, who are unfamiliar with cooperatives, spent needless and endless weeks familiarizing themselves with agri-industries and our business.

More than once, the direct result has been the financing was arranged later than planned at more costly rates.

Had we been able to turn to the Banks for Cooperatives as an alternative source of financing, we know delays would have been minimal. To be frank, I would compare our situation in these deals with the situation of anyone here today who tried to borrow money for a new car from the bank in the next town instead of from the bank next door who you have been doing business with for 30 years.

The second problem in these equity transactions, obviously, has been that we have not been able to turn to another lender, in this case our own banker, for a competitive rate quote, and thus we have been excluded from even attempting to arrange financing through a large sector of the national banking community.

The goal of my company, like any business, is to maximize returns to our owners, in this case 150,000 farmers in key agricultural producing areas of this country.

The entire cooperative system is integrated in such a way as to encourage every cooperative to do business with fellow cooperatives.

This integration, logically, should extend to the banking sector, particularly because the cooperative borrowers from the Bank for Cooperatives own their lender. The management of my company strongly feels that there should be as few legislative impediments as possible which hinder cooperatives doing business with one another; and, as I have pointed out, we feel this is doubly important in the area of export financing and equity lending.

It is for these reasons we ask for approval of H.R. 4782.

I would be happy to answer any questions you might have.

Mr. JONES of Tennessee. Thank you very much, Mr. Brophy, for a good statement, and we do appreciate your presence here.

I am going to yield at this point to my colleague, Mr. Madigan, in whom's district we are, for the purpose of an introduction.

Mr. MADIGAN. Mr. Chairman, Harold Apel, like several other people in this room, have been very good friends of mine.

Harold is responsible for me being a cosponsor of this bill.

He came to my office in Lincoln some time ago and said the farm credit system had this little bill with these few amendments that he wanted me to cosponsor. And I did.

But now we are out here trying to get all of you to tell us how to answer the questions that are coming up in the Capitol about these 28 different provisions, so we certainly appreciate you and all the other witnesses coming here this morning.

STATEMENT OF HAROLD A. APEL, LINCOLN, ILL.

Mr. APEL. Thank you.

Hon. Edward Madigan, I appreciate those comments, and you just beat me to the draw. We haven't said good morning yet.

We both were born and raised in Logan County and grew up there in kind of a hard-working way.

I would have to say Edward grew from the ground up, the same as I did.

We both had to work hard for where we are today.

He represented us in Springfield in the House of Representatives for a number of years, where I felt he did very well for all of us, not only the farmers, but he represented the people.

They are the kind of people we like to see in Springfield and Washington. We feel he is doing the same thing there today.

He started as a taxicab operator in Lincoln, and worked hard. His father was behind him. He was in politics also. The two together put together a real good team.

He is the only one operating in this team now, and I feel he is doing a good job for the citizens of this district.

Mr. MADIGAN. Can I make sure that everybody from the press got that down?

Mr. APEL. I am sorry to take up the extra time, but I couldn't help but mention it.

And it is indeed a pleasure to have Representative Jones here in this district also.

So, with those comments, I will try to make a few of my own as a farmer; and also as vice chairman of the Federal Land Bank Association of Springfield-Lincoln.

I appreciate this opportunity to express my views concerning H.R. 4782, the Farm Credit Act Amendments of 1979.

I live on an 880-acre farm, which we own, with my wife, Rosemary and four children, in Logan County, Ill.

We started farming in 1944 on a 180-acre rented farm.

We purchased our first 180-acre farm in 1947. That was when we first became acquainted with the Federal land bank, and had loans continuously with them since 1947.

The Federal Land Bank of the Sixth Farm Credit District in 1947 had \$83 million in loans outstanding and, of that amount, \$10 million was loaned in new money that year.

As of 1978, the Federal land bank had \$2.7 billion in loans outstanding, of which \$595 million was new money loaned in 1978.

All the bank's loan officers that we have dealt with on loans for land have kept our farming business on a safe and sound financial basis.

We have grown in size and volume because of the good loans from the Federal land bank.

The Farm Credit Act was passed in 1916 and you can see the benefits the farmers have had from this piece of legislation. It has helped the economic growth of our country.

There are some good points of the Federal land bank system I would like to stress.

It had the money available to farmers for loans when they needed it.

Since 1944, the farmers have owned all the stock of the bank, and since that time it has not cost the tax payers 1 cent. That is important to remember.

We believe it has preserved the family farm.

The Federal land bank has made sound loans through the years with very few foreclosures, always giving the farmer several chances to recover.

The Federal land bank board of directors are all farmers, the people who know what farmers' money needs are.

Although I am a director of a Federal land bank association, I appear here in my capacity as a farmer, to urge your support toward the passage of this legislation.

As a director, I am willing to support legislation that will help the farming business. I would like to focus attention on a couple of items in this bill which I believe are particularly important:

I am concerned about a possible decrease in the opportunity for land banks to service the credit needs of young farmers and the lack of authority for the banks for cooperatives to finance the exporting activities of farm cooperatives.

The first concern relates to the continuity of agriculture in the future.

The second relates to the stability of commodity prices.

The Federal land banks finance young farmers through a coordinated land program with Farmers Home Administration, because the credit needs of young farmers generally exceed the loan authorities of Federal land banks, which are limited to 85 percent of the appraised value of the security.

These coordinated loans involve the Federal land bank furnishing a part of the credit needs and Farmers Home Administration furnishing the remainder under its direct lending authority.

However, it is my understanding that Farmers Home Administration will be placing greater reliance on its guaranteed loan program in the future.

With the guaranteed loan program, the private lender has to furnish the full credit need. These needs will generally exceed Federal land bank loan authority, thereby eliminating land bank assistance to young farmers.

I strongly support the elimination of the 85-percent loan limitation where there is a governmental guarantee, because I believe Federal

land banks should have the opportunity to service the credit needs of young farmers. But, even more, I believe that the young farmer should have the advantages that come with a Federal land bank loan.

Most importantly, they get the benefit of the expertise of the land bank system in dealing with long-term loans.

And, second, they get the sensitive and responsive loan servicing which young farmers may need in periods of economic stress and adversity.

One could argue that these loans are more risky, but we have had no more foreclosures with young farmers than we do with the older farmers.

I believe that the advantages of encouraging a new generation of farmers far outweigh the risks.

Another part of the legislative package which I strongly support is that legislative amendment which would authorize the bank for cooperatives to engage in international financing activities on behalf of U.S. farm cooperatives engaged in international trade.

This would fill in a gap in the service that the bank for cooperatives can provide which currently is limited to financing the movement of commodities to the American ports.

We, in the United States need cooperative banks for overseas shipments. Canada, Germany, and Australia have cooperative banks for this purpose.

At the present time, cooperative grain elevators only ship 7 percent of all grain that leaves this country.

As a farmer, what I receive for my crop is dependent on foreign markets as well as the home market. I believe that since the American farmer is so dependent on foreign markets, the American farmer should have greater contact with those foreign markets.

This is best achieved through the American farmers' cooperative organizations.

I believe the bank for cooperatives should not only be able to finance the movement of commodities intended for international trade to the American ports, but also overseas. This is merely a logical extension of authorities the bank for cooperatives already has, and allows the American farmer to have a greater say in the movement of his produce into international trade.

I do know the impact the foreign markets have on my prices, and I also know that working through cooperatives has always been important to my own welfare as a farmer.

I am convinced that more direct farmer contact with international trade through his own cooperative would benefit both the American farmer and the public in general. The American farmers' income should be higher through foreign trade and the general public could gain from the favorable impact such trade has on our balance-of-payment problem.

Although I have specifically mentioned only two items included in the present legislative package, I fully support the full legislative package because I believe it fills some areas in which expertise has shown the Farm Credit Act of 1971 to be deficient.

I would also like to make some brief comments on an issue that is not part of the legislative package, but which is surfacing because of the influence of outside sources; namely, the insurance industry.

I understand that some attempt is being made by the insurance industry to limit the activities of farm credit institutions in this area. I want to go on record as being opposed to any such attempt to change the current authorities of the farm credit system in this area and to urge that the members of this subcommittee ought to oppose any such attempt.

The current insurance activities of farm credit institutions in the Sixth Farm Credit District are limited to the Federal land bank offering mortgage life insurance and disability income insurance and the Production Credit Associations offering credit life insurance, disability income insurance, crop hail insurance and, in only a few associations, property insurance. These programs have been offered because there has been a demonstrated need in these areas. As a matter of fact, the Farm Credit Administration regulations require a specific finding that there is a need for the service before it can be offered. Through the years, farmers have been notoriously underinsured and these programs are designed to give them an opportunity to correct any imbalance that might exist. These programs are merely a minor part of the operation of the Farm Credit institutions and are offered to the borrowers as an additional service. All of the insurance programs are in some way loan-related. It appears to me that any attacks by the insurance industry on the authorities of the farm credit institutions constitute an attempt to limit competition in this area. Whatever competition farm credit institutions are able to create should spur the insurance industry to do a better job in serving American farmers' insurance needs. It appears to me that stimulating competition would have a much more beneficial effect than trying to limit it by removing the farm credit institutions' authorities to offer these types of services, even in their quite limited way.

I support the removal of the 85-percent limitation when making guaranteed loans. The reason why I say this, I have seen it in our own associations, these young farmers have these guaranteed loans, and we have never had a foreclosure in our association.

And we feel we should give these young farmers a chance.

And, also, it has happened in my own personal family.

I have three sons, and two of them have bought their first tract of land.

One was out of college 2 years, and the other one was in college, graduating the year they purchased this land.

But their father happened to be in the FmHA at this time. I supported them with no money.

And, in this past 6 years, one of them has repaid all the money, and the other one is on the way to repaying about three-fourths.

These young farmers have a better education than I have to go out into the world and to know what to do in the times we are living in. And I feel we should give these young farmers an opportunity to do these things, even though the law says we can only go to 85 percent at the present time.

So I support that we eliminate this 85 percent, because our records have shown, and they are clean, that we have gotten no young farmer in trouble doing these things, in making these loans.

And, in conclusion, we need the bank for cooperatives to make loans for exporting commodities.

I oppose the efforts of the insurance industry to limit the Farm Credit Institution from selling insurance to stockholders.

Thank you for letting me make these comments as a farmer and also as a stockholder of the Federal Land Bank Association.

Mr. JONES of Tennessee. Thank you very much, Mr. Apel.

It was a very good statement, and I want to say this, since we are talking about your Congressman and my colleague, Ed Madigan.

I don't have to tell you or anybody else here, he is doing a real job in Washington for agriculture.

The Subcommittee on Conservation and Credit never meets but what he is there. He is the most dependable member of the subcommittee—other than the chairman—that we have on the subcommittee.

I believe you will agree with that.

But I'm delighted to have been out here several times with him.

He has also been in my district, and we have worked very closely on a number of issues that pertained to farm people.

And everybody in this room probably knows he belongs to one party and I another, but that has nothing to do with our attitude toward what farm people need.

Mr. APEL. Thank you, Representative Jones, and we are glad to hear that.

I have never been to Washington, D.C., myself. My wife and I have talked about coming out there, but we have never made it yet.

But we have worked hard to get Mr. Madigan into Washington, and I feel sure the words you said are true.

My daughter and his daughter campaigned in the last election, and they worked hard.

And we appreciate that he is out there. And we feel sure he is doing a good job for us.

Thank you.

Mr. JONES of Tennessee. Thank you very much, Mr. Apel.

Our next witness is Robin D. Lahman of Franklin Grove, Ill. Mr. Lahman, you may proceed.

Mr. LAHMAN. Thank you, Mr. Jones.

I have brought a statement from two other people who were not able to be here.

Both of them served as district directors of the Sixth Farm Credit District in St. Louis; Glenn Webb and Hilmer Albrecht, who is chairman of the Central Bank of Co-ops.

I will summarize and file my prepared statement with these two statements for the record.

Mr. JONES of Tennessee. All right.

Without objection, they will be placed in the record after your summation.

Mr. LAHMAN. Fine. Thank you.

STATEMENT OF ROBIN LAHMAN, FRANKLIN GROVE, ILL.

Mr. LAHMAN. Now, I am Robin Lahman from Franklin Grove, Ill. That is up in Lee County.

Mr. Jones, I think you should be aware that there is more to Illinois than Mr. Madigan's area, that we are up there in God's country, where the ground is white this morning and the corn isn't picked.

Mr. JONES of Tennessee. Mr. Lahman, I am aware of the fact that Illinois is a great agricultural State, great in many, many ways.

Mr. LAHMAN. Thank you.

I certainly appreciate this opportunity to give my views on H.R. 4782, the Farm Credit Act Amendments of 1979.

I am a farmer and a user of the farm credit system. I guess you would say I am a debtor, as most of us in this room are who are associated with the farm credit system.

A year ago I was elected to the Sixth Farm Credit District Board of St. Louis, representing the production credit system.

I think that we are all aware of that Credit Act of 1971 which made great strides in our credit system. However, with the dynamic changes that have taken place in agriculture, we feel that at this time there are some improvements that are needed and we hope that the Farm Credit Act Amendment of 1979 will give these improvements.

I think you are well aware that this is not a complete overhaul of the system, but an updating of it so it will be more efficient and a better system, because of the changes in farmers' needs.

I think that it is well to point out that there is no Federal money involved in the farm credit system anywhere, and these 28 amendments that you are looking at will not cost the American taxpayer any money.

And I want you to know that I support fully the Farm Credit Act Amendments of 1979; however, I would like to specifically address myself to just one portion of this act, and that is the area that would allow PCA's and the Federal land bank to finance processing and marketing activities as they relate to farm operations.

Under the present authority, borrowers are expanding into marketing and processing for their neighbors and themselves to have other sources of financing, and this results in split financing, which all of us are aware is not good for either the lender or the borrower.

Sufficient financing should be provided for processing and marketing activities to allow farmers to construct efficient facilities, and this often means that they will overbuild, that they will build more than they actually need for themselves.

But under the present law, they are not able to finance this through the PCA and land bank systems, if it is over and above their own production.

Mr. Madigan, last Saturday I was trying to get to Cerro Gordo, and I got off Highway 74 at Le Roy, and I wandered through the country.

I don't think you can get there from Le Roy, but I went down some cowpaths that in Lee County would be gravel, but in your district they are blacktopped. And I want to commend you on that.

Mr. MADIGAN. That is prompt payment of taxes.

Mr. LAHMAN. But I was very impressed, as I drove through that very rich agricultural area, of the new facilities that have been constructed, primarily for farm storage, and I imagine many of these are to a greater extent than just for farm use.

I am sure he is storing some grain and marketing some grain for some of his neighbors. And this is a provision of the bill that we would like to have changed.

And I want to share with you an example of what happened to me as a borrower of the production credit system a number of years ago.

We were involved, as a sideline, in a feed and fertilizer business, and we wanted to expand our on-farm storage facility but make it big enough to provide storage for our neighbors and customers, and also to build feed mill processing.

I went to my local production credit, and they said, "No, this won't be possible because this is bordered on commercialism."

And so then, consequently, I had to go out to other sources.

And this is a provision of the bill that we feel is vitally important.

And I think, as you look at the specialized agriculture that we are having—vegetable crops, livestock production and all the various crops—that this is a very, very vital area. And I hope that you will look favorably at this.

And I think you are aware that the district farm credit boards will have control of the put-through. In other words, it is going to be farmers who are going to build these marketing and processing facilities, and the district boards will control what the throughput has to be from the individual members.

The export issue has been touched on quite well, and I don't think I need to mention that any further, but as an Illinois farmer, where so much of our crops are exported, I am vitally interested in that area.

Now, I think I would like to mention an area that is not part of the amendment. It is an area that Mr. Jones may not react favorably to, but I want to, at least, express my feelings.

And that is on the area of maturity of production credit loans.

There has been a movement indicating a desire to extend intermediate term loans to a period of 10 years.

As a farmer, PCA board member, I have seen many items that have a useful life of much more than 7 years be financed through production credit, and the farmers were able to work out a satisfactory system of getting this financing.

So I would encourage that we don't change this, that we stick with our 7-year maturity at this time, and if we need longer terms, use the land bank for those.

Let me say again, I support the Farm Credit Act of 1979 in its entirety. These amendments will strengthen the Farm Credit System.

And changes in these amendments by special interest groups would only serve to erode the strength of the amendments and not be in the best interests of the American farmer.

Remember that the impact of these amendments will not cost the taxpayer any money, but will help the American family farmer do a better job of feeding the world.

Thank you for letting me share my views.

Mr. JONES of Tennessee. Thank you very much, Mr. Lahman. We appreciate your remarks and we will note very much what you said.

[The prepared statements of Mr. Lahman, Mr. Webb, and Mr. Albrecht follow:]

STATEMENT OF
ROBIN LAHMAN
BEFORE THE SUBCOMMITTEE ON CONSERVATION AND CREDIT
OF THE
HOUSE COMMITTEE ON AGRICULTURE
REGARDING THE
FARM CREDIT ACT AMENDMENTS OF 1979
CHAMPAIGN, ILLINOIS
NOVEMBER 10, 1979

Mr. Chairman and members of the Subcommittee, I am Robin D. Lahman, a farmer from Franklin Grove, Illinois. I am also a member of the Board of Directors of the Sixth Farm Credit District, which includes Arkansas, Illinois and Missouri. I appreciate this opportunity to give my views concerning HR 4782, the Farm Credit Act Amendments of 1979.

I am here today in my role as a farmer and as a member and user of the Farm Credit system. As a farmer, I recognize that the availability of credit is essential to modern farming operations and that the banks within the Farm Credit system have consistently provided this credit availability to the farm community and especially when other credit sources have dried up. Although the Farm Credit Act of 1971 made great strides in creating the framework necessary to fulfill the credit needs of farmers, I believe that the Farm Credit Act Amendments of 1979 will further strengthen and improve credit availability for deserving farmers. It should be stressed that the proposed legislation is not a complete overhaul of the Farm Credit system, but is merely an updating of the system to meet the changing credit needs of farmers in a dynamic agricultural economy. The Farm Credit Act Amendments of 1979 are necessary in order to insure that agricultural lending keeps pace with the growing needs of farmers and their cooperatives. I'm sure you all are aware that there has been no Federal money in our cooperative credit system for more than 10 years. And furthermore, none of the 28 amendments will require any government money.

Although I support the Farm Credit Act Amendments of 1979 in their entirety, I will be speaking today primarily on that portion which will allow Production Credit Associations and the Federal Land Bank System to finance processing and marketing activities directly related to farm operations. This would fulfill an important credit need in that it would provide financing to farmers who de-

sire to acquire better processing and marketing facilities. Under the existing authority, PCA and Land Bank borrowers who expanded into processing and marketing so as to include the products of their neighbors had to rely on other sources of financing. This resulted in split financing which generally is not best for either the borrower or the lender. The current lending authority prevents the consolidation of such credit for a PCA or Land Bank borrower involved in marketing and processing activities. Because farmers are increasingly involved in such activities, it is important to American agriculture that this credit need be fulfilled. The proposed amendment will provide the authority to meet this need through the Farm Credit System which is almost unique in its proven ability to provide agricultural credit in the amounts needed regardless of economic conditions.

Sufficient financing must be provided for the processing and marketing activities of farmers to allow them to construct efficient facilities. This often means that the facilities erected must have the capacity to handle farm products in excess of that which the farmer is producing so that the farmer-borrower will also provide marketing and processing for neighboring farmers. Let me use myself as an example of how this amendment for processing and marketing facilities could have helped. Several years ago we built a grain drying facility and a feed processing facility. It was built for my use but was on a large enough scale so that we stored grain and processed feed for our neighbors. I had to secure financing other than PCA because it was considered a commercial venture. If this amendment in the 1979 Farm Credit Act had been law we could have used PCA or Federal Land Bank funds for the financing. If this loan authority is granted, I have been assured that the District Farm Credit Boards under the supervision of the Farm Credit Administration, would provide guidelines for this type of financing. In fact, we have already made preliminary plans for providing such guidelines.

The importance of farm exports not only to American agriculture but to the U. S. economy in general is, I believe a well understood and generally accepted fact. To this Illinois farmer, it is of the highest importance and anything which can reasonably be done to expand or to make the export program more feasible is deserving of the support of this committee. We farmers

would like to have a higher degree of control over our economic destiny by causing more of our exports of farm products to go through cooperative marketing channels. In large measure, our farm cooperatives do their financing through the Banks for Cooperatives which do not have the authority under present law to provide the full range of financing services so necessary to facilitate the international marketing process.

I understand that some concern has been expressed to the effect that the granting of additional loan authorities to the Farm Credit System might result in causing loan funds needed for agricultural production being diverted into other channels and causing harm to our basic production. My response is that many decades of experience have proven that the Farm Credit System is the finest piece of financial machinery ever developed for providing loan funds to agriculture. I believe that our method of obtaining funds, which Congress has so wisely provided, will continue to be able to provide the money deserving farmers need, and that processing and marketing (here or abroad) are as important in getting food on the table as the production of crops or raising of livestock. If we do get a "squeeze", as we did briefly in 1966, I am confident that our system has the experience and wisdom to allocate our financial resources wisely.

I would also like to comment on several issues important to farmers but not part of the Farm Credit Act Amendments. Specifically, discussions have been had concerning the length of the terms of loans needed by Production Credit Associations to meet the intermediate term credit needs of farmers. Some would change present law from the present seven year limitation to ten years. The intermediate credit needs met by Production Credit Associations usually entail loans secured by collateral which has a normal life expectancy of 7 years or less. My own experience as a former PCA board member has been that those situations involving the financing of heavy production equipment with longer useful lives can be worked out in a practical way. Additionally, long term credit needs beyond that available from PCAs can be adequately met by the Federal Land Banks. I see no need for any change in the law in this regard.

Attention has also been focused on the insurance marketing activities of organizations within the Farm Credit system. These insurance services now being provided within the Sixth Farm Credit District are limited to situations where there is a specific finding that there is a borrower need for such services. All of the insurance programs are offered to members as an additional service and are definitely loan related. Member participation is strictly voluntary. I am aware of attacks by insurance people on these Farm Credit programs. It appears to me that this is merely a self-serving attempt to limit competition and in no way directs itself to the interests of the persons served: the farmers. I would like to be able to continue to have a choice through my cooperative Farm Credit System, as Congress has already provided.

In closing, I would again like to stress that I support the Farm Credit Act Amendments of 1979 in their entirety. The amendments provide a means to strengthen the Farm Credit System. Any changes to these amendments resulting from the actions of special interest groups would serve only to erode the strength of the amendments and would not be in the best interest of American farmers. Also, I would again like to stress the importance of that portion of the amendments expanding the financing available for the processing and marketing activities of Farmers. It is important for you to remember that the enactment of the amendments will not cost the American taxpayer any money but will help the American family farmer do a better job of feeding the world. Thank you for the opportunity to express my views before this committee.

STATEMENT OF GLENN WEBB, FARMER AND MEMBER OF THE BOARD,
FARM CREDIT BANKS OF ST. LOUIS

Mr. Chairman and members of the Subcommittee, my name is Glenn Webb and I operate a fruit, grain and livestock farm near Tunnel Hill in Southern Illinois.

I'm submitting this statement as a member and secretary of the board of the Farm Credit Banks of St. Louis, which serve the states of Arkansas and Missouri in addition to Illinois.

I serve also on the boards of directors of FS Services, Inc., a regional farm supply cooperative; Illinois Grain Co., a regional grain marketing cooperative; and the Illinois Fruit Growers Exchange, a cooperative marketing much of the fruit grown in Southern Illinois.

The board of directors of the Farm Credit Banks of St. Louis has been actively involved and interested in development of the legislation to amend the Farm Credit Act of 1971. We have discussed the legislation at great length, and endorse it as introduced. We have been aware of and sensitive to the many and varied interests of farmers and cooperatives in our district.

There are several sections which I believe are particularly important and I would like to address those briefly in this statement.

I'd like to discuss first the section dealing with cooperative eligibility. As a farmer, I firmly believe in the principle of farmer control of farmer cooperatives which serve rural America. Although the

majority of business done by most farmer cooperatives is with and for farmers, cooperatives are serving more non-farmers due to population shifts from urban to rural areas. This is especially true in the case of rural electrics, although it applies also to some farm supply and other types of cooperatives in our district. The fact that a cooperative's services are being used by more non-farmers should not prevent the organization from having access to BC financing as long as the principle of farmer control is maintained. I feel the combination of the minimum 60 percent farmer membership provision and discretionary authority of district boards to set somewhat higher minimums maintains that principle. It also provides for flexibility in applying it under differing conditions in various districts.

The second section for consideration is the one containing provisions giving Banks for Cooperatives authority to engage in financial transactions related to export sales. Large volumes of grain and other commodities are produced in the area of the Sixth District and the export market is a vital outlet for these commodities.

To the extent that export sales of agricultural products are increased... and almost everyone I've heard address this issue, from individual farmers to government policy makers, agree that they should be...and need to be...the availability of specialized credit services is going to be a key factor.

I believe that farmer cooperatives can accomplish the goal of increasing export sales to the benefit of both our national economy and individual farmers. Cooperatives already own or control port facilities with sub-

stantial export capacity. In my judgment, farmers are willing to make additional commitments to expand these facilities and capabilities because they understand the impact that greater export sales can have on the economic health of their individual farms, the agricultural industry, and the nation as a whole. In addition, the export sales of grain have a very positive effect on the balance of payments.

Again, though, I can't overemphasize the availability of credit services for all of these and other related activities. The authorities sought in the export financing area are no more than what other banks already have. Granted the existing availability of these financing services from commercial banks, I feel logic and reason are on the side of the Banks for Cooperatives offering such services to interested borrowers.

The long-standing and fine relationships already developed between cooperatives and their own Banks for Cooperatives are a tremendous asset that can be built upon as farmer organizations enter more actively into the export business. It seems to me that it would be much easier and more convenient for cooperatives to use the services of their own Bank for Cooperatives, which already is familiar with the organization, its needs and its people. I believe more cooperatives would be encouraged to explore the possibilities of entering into the direct export business if a source of information about it and services to accomplish it were readily available through their Bank for Cooperatives. This knowledge and assistance, in turn, would help maximize returns to farmers.

In short, I believe the export financing authorities outlined in this legislation are an appropriate and timely extension of services to help

farmer cooperatives grow and meet the needs of their farmer-members.

The third and final section I would like to discuss is the clarification of the status of Farm Credit lending activities with respect to the application of state usury laws.

By way of review, the problem in the Sixth district centers on uncertainties about the application on Farm Credit lending of an Arkansas constitutional provision calling for forfeiture of interest and principal on loans with rates higher than 10 percent per year. The Farm Credit lending institutions believe that their lending rates on loans to Arkansas borrowers are not subject to this law. But the absence of any specific wording to that effect in the Farm Credit Act of 1971 has dictated a cautious approach, especially when tens of millions of dollars would be at risk in any challenge of lending rates above that level.

As a result, the Farm Credit lending units are between the proverbial rock and the hard place. On one hand, current costs of money raised to provide loan funds to Arkansas borrowers are well above 10 percent. On the other hand, the threat, no matter how remote, of losing millions and millions of dollars in loans can hardly be shrugged off. Similarly, the Banks' primary reason for being is to provide credit service on a sound basis to agricultural borrowers in this district. But loaning money at rates below what it costs can hardly be considered a sound business practice. Thus, the Banks are faced either with operating on an unsound basis to the ultimate detriment of their member-borrowers who own it, or failing to accomplish its primary task of providing credit to cooperatives in the district. Since the Bank has no other

services to provide or areas it can do business, the choice is just that simple.

Regardless of one's personal views on the application of state usury laws, I believe a self-evident case could be made that usury statutes are ill-advised and unnecessary in a user organization, such as the Bank for Cooperatives, as well as other Farm Credit Banks and Associations.

As proof of this statement, the primary concern now expressed by farmers and cooperative organizations that I'm familiar with is not how much their loan money is going to cost, but whether or not credit will be available through their Farm Credit lending institutions.

I am aware of efforts in the U.S. Congress to provide a temporary lifting of the Arkansas interest ceiling, pending the outcome of a constitutional referendum which addresses the usury rate issue, among many others. As helpful as this legislation would be, its affect would be only temporary and applicable only to one geographic area. The necessary answer for the long-run is contained in the H.R. 4782 provision clarifying the fact that Farm Credit System lending is not subject to state usury laws.

I am convinced that these provisions and others contained in H.R. 4782 are reasonable and carefully-considered requests that will enable the Farm Credit System to provide improved service to farmers and their cooperatives in the 1980s. If the Farm Credit System is to meet agriculture's new and expanded needs in the decade ahead, planning and preparation must be started. Congressional approval of this legislation will enable the System and its farmer and cooperative user-owners to proceed with this important task.

Statement of
Hilmer E. Albrecht, Chairman
on behalf of the
Central Bank for Cooperatives
of the Farm Credit System

Mr. Chairman, I am Hilmer E. Albrecht of Sparta, Illinois. Currently I am serving as Chairman of the Board of Directors of the Central Bank for Cooperatives, Denver, Colorado, and also am a director of the Farm Credit Banks of St. Louis which provide credit services for farmers and their cooperatives in Illinois, Missouri, and Arkansas. For 37 years, I was manager of Randolph Service Company, a local cooperative serving its farmer-owners. I have devoted most of my adult life to the work of farmer cooperatives and hope that I have some understanding of farmers and their cooperative business organizations.

I would like to comment on the need for the provisions in the Farm Credit Act Amendments legislation that would enable the Banks for Cooperatives to effectively provide cooperatives with international banking services to promote and facilitate agricultural exports.

Mr. Chairman, as you know, the Federal Government has been calling on American businesses to become more active and effective in marketing U.S. products abroad so that we can improve our negative balance of payments. Farmer boards of directors of cooperatives have responded by seeking out how we can do our share.

Farmers are continually hearing how much of our farm production is sold overseas and they have been asking who it is that is selling their products. They have learned that a few international trading firms serve as middle men in selling 90 percent of their farm exports and they are asking their cooperative marketing associations to become more active in marketing their products around the world. They want their cooperatives to help boost total farm exports and to assure that they are receiving their fair return on their products sold to foreign buyers.

And Mr. Chairman, the cooperatives are hard at work in responding to these clear directives. Cooperatives are acquiring export facilities, learning how to market products abroad, and developing strategies to be successful exporters. But to be most effective in international trade, with a minimum of risk, the cooperatives need the banking system they own, that has served them so constructively for 46 years, to assist with the financial aspects of their foreign business. I refer, of course, to the Banks for Cooperatives.

The Banks for Cooperatives were chartered by the Congress in 1933 to finance and foster successful development of cooperative businesses that would benefit farmers. Cooperatives, today, are seeking to develop export sales to benefit both farmers and the Nation. They need their Banks for Cooperatives to counsel and assist them as they enter this new, complex area of international trade.

The world may have grown smaller in recent years due to jet travel and electronic communication. But it is also a very complicated place in which to do business. The U.S. business that wants to sell products overseas is faced with a tangle of regulations, currencies, shipping problems, etc., that present problems that are almost impossible for a businessman to solve on his own. We have to seek out potential buyers and verify their integrity. We have to study the country we're selling in and evaluate the political realities, import restrictions, payment terms and methods of transferring payment funds.

It is understandable that in these circumstances the farmer cooperative manager would turn to his banker for a source of information and advice just as he would do in domestic business transactions.

A bank, in assisting with export transactions, basically grants credit and facilitates the collection of payments. The whole range of services is far more complex, but these are the basic services that a bank provides an exporter.

Farmer cooperatives are looking to their Banks for Cooperatives to become almost a partner in approaching the complexities of international trade. This is what commercial banks do for their large, preferred customers. Commercial banks provide trade advisory services to lead U.S. corporations to potential customers. They provide large amounts of information on the whole range of exporting rules, regulations and procedures. They even provide members of their staff experienced in specific countries to advise and direct exporters to the potential market.

When a sale has been accomplished, the commercial bank moves in to assist with the collection service, to transfer back the funds paid by the foreign buyer. In this regard, the international bank sends instructions on how the funds are to be collected and sent. It advises and assists with obtaining insurance, Government guarantees, or other coverages to minimize the risk for the exporter.

These are only examples of the kinds of technical assistance on the financial side of export transactions that the cooperatives need from their Banks for Cooperatives. And for the Banks for Cooperatives to be able to organize and offer effective, efficient service, they need the same general authorities to participate in international banking as are included in the Farm Credit Act Amendments bill.

Some individuals might ask if international banking services from commercial banks aren't also available to cooperatives. They are for the large cooperatives. Smaller cooperatives, however, are unfamiliar with international banking and often don't know what services to request. Even the larger exporting cooperatives, for the most part, sell their commodities today at a U.S. port, often to the major international trading companies. Many of them have not known how to make sales abroad in ways that will involve a minimum of risk but maximize the return to the farmer.

The real point is that the Banks for Cooperatives were established for the purpose of fostering the successful business development of farmer cooperatives. Cooperatives, today, are accepting the challenge of developing exports and they need their bank to assist them. Also, it should be noted that farmers, through their cooperatives, have more than \$800 million invested in their Banks for Cooperatives and it is reasonable for them to ask that their banks expand services to serve cooperatives, expanding needs.

The authorities we are asking for do not require any financial support from the Federal Government. They are the same general international banking authorities that commercial banks have been granted. They will enable the Farm Credit System to become a key participant in building the capabilities of this Nation to effectively sell its products around the world.

For these reasons, we believe this is constructive, timely legislation that offers much benefit for farmers and the general economy. We ask your Subcommittee to act on it favorably and recommend it for passage by the Congress.

Thank you for giving me this opportunity to express my support for this important legislation.

Mr. JONES of Tennessee. Mr. Lemmerman, first vice president of the Illinois Bankers Association, is the next witness.

**STATEMENT OF J. D. (JACK) LEMMERMAN, FIRST VICE PRESIDENT,
ILLINOIS BANKERS ASSOCIATION**

Mr. LEMMERMAN. Thank you, Mr. Chairman and Congressman Madigan.

I am Jack D. Lemmerman, president of the National Bank of Monmouth, Ill., and first vice president of the Illinois Bankers Association.

My bank has \$43 million in assets and is in a predominantly agricultural community of 11,000 people.

The Illinois Bankers Association is a trade association with a membership of 1,015 of the 1,251 banks in the State of Illinois.

I am also a member of the government relations council of the American Bankers Association. This testimony parallels that of the American Bankers Association given for a corresponding subcommittee of the U.S. Senate.

I appreciate this opportunity to present the association's views on a number of issues and provision related to H.R. 4782, a bill to amend the Farm Credit Act of 1971.

What we have before us is a significant piece of legislation. The law that emerges will have an important bearing on whether the farmer of the future, like the farmer of today, will have two or more types of strong financial institutions bidding vigorously for his credit business.

This legislation could have a profound impact on the competitive climate that will prevail for agricultural lending in the future.

The Illinois Bankers Association believes the current proposed package of amendments would give the Cooperative Farm Credit System further authority to provide financial resources outside the farm sector and would be an additional encroachment on the private sector, including the commercial banking system.

The amendments also expand the inequities already existing between the operations of private lenders and the CFCS, thereby reducing the competition between CFCS and other lenders.

Thus, the Illinois Bankers Association broadly and basically opposes those amendments which would result in CFCS encroachment into nonfarm lending activities.

Obviously, this bill covers an extensive range of topics, embodying a series of complex issues. Some of these topics involve interrelated issues, while others are independent subjects.

In order to expedite the presentation, it is my intention to summarize the statement of the Illinois Bankers Association, commenting on some provisions of the bill in specific detail, while generalizing others.

It would be appreciated that my written statement, which I have left with you, will be entered on the record of this hearing in its entirety.

Mr. JONES of Tennessee. Without objection, it will become a part of the record.

Mr. LEMMERMAN. Agriculture is America's largest single industry, with assets totalling \$820 billion, equivalent to approximately 60 per-

cent of all capital assets of manufacturing corporations in the United States.

All phases of agriculture still employ the largest number of people of all industries, and agriculture is the country's most effective creator of new wealth.

Banks are deeply interested in the agricultural sector, so much so that banks hold over \$36.8 billion of farm debts, 28 percent of the total, estimated to be \$132 billion.

Two-thirds of the Nation's full-service banks are in communities of less than 25,000 people. In fact, half of these banks are in towns with fewer than 5,000 residents.

According to the latest estimates, nearly 60 percent of these community banks listed agriculture as the single most important source of income for their communities.

The banking community recognizes that the CFCS plays an important role in providing agricultural credit. We support those amendments which modernize CFCS methods and procedures, enabling it to serve any needs of a changing agriculture.

However, we oppose the new authorities this legislation would grant that provide new directions while special treatment under the present law remains.

Thus, our testimony will be limited to those amendments we believe would reduce competition with the private sector by granting undue competitive advantage of CFCS member institutions.

The proposed legislation would reduce from 80 percent to 60 percent the requirement that voting members of cooperatives borrowing from banks for cooperatives, BC's, be farmers.

However, the legislation before us does not state the criteria used to qualify one as a farmer. We, therefore, feel that the word "farmer" should be properly defined in the language of the bill.

Various publications, such as the U.S. Department of Agriculture Statistical Bulletin No. 609 of July 1978, state that many farmers earn a high percentage of their annual income from off-farm sources.

Mr. Chairman, since the Farm Credit Administration deems it desirable, and we agree, that farmers continue to control eligible co-operatives, a clear-cut definition of who a farmer is would be necessary.

The continuing erosion in the number of full-time farmers has led to fewer farmers running bigger operations each year.

This proposal would broaden the eligibility criteria for rural electric and other cooperatives to enable the BC's to serve an even wider range of credit needs in rural and suburban America.

We believe there should be no further liberalization of the farmer-member eligibility requirements for financing.

The present 18-percent standard—17 percent for rural electric co-operatives—allows a cooperative eligible for BC's financing to have a substantial number of its membership supported by nonfarm income, either as parttime or nonfarmer members.

Is our believe that, if an agricultural community truly needs a co-operative, there will be enough farm constituents available to support it on its current base of farm to nonfarm memberships.

Commenting on the increase in Federal land banks' 85-percent loan value lending limitation, this proposal would allow FLB's to make
 : a loans in excess of 85 percent of the appraised value of the

property, securing the loan when guarantees are provided by Government agencies.

Bankers understand the reasons for this proposed change, allowing FLB's, through Government guarantee loans, to assist low equity borrowers.

We are concerned that abuse could result in excessive extensions of credit, causing long-term cash flow problems for borrowers.

These circumstances would contribute to serious inflationary pressures on land prices.

We, therefore, recommend that very tight limitations be placed on the authority allowing lending in excess of 85 percent.

Additional provisions of the bill would permit the Federal land banks and production credit associations to finance processing and marketing activities for farmers.

Although we understand that the authority is not intended to qualify any new borrowers, it does provide new authority to finance off-farm businesses in which a substantial portion of the product processed and/or marketed is not produced by the borrower.

Presently, Federal land banks and production credit associations are limited to financing on-farm activities.

We believe this guideline should be continued, since it provides a reasonable control to qualified borrowers.

H.R. 4782 would exempt the CFCS for State-imposed interest rates limitations; that is, usury laws.

This is a gross inequity for other institutional lenders, particularly in periods of high interest rates such as we are now experiencing.

In those States have restricted usury rates, the present environment would permit the penetration into the agricultural loan market by the CFCS, without any competitive ability on the part of private lenders to serve the market, and would permit a windfall increase in the share of market for CFCS.

Smaller commercial banks cannot profitably make loans when the usury ceiling is under the market rate.

In many parts of rural America, the CFCS effectively sets the ceilings on farm credit granted by institutional lenders in the area.

In periods such as the present, with the banks' cost of funds rising, often much higher than the local usury rate and lending rates of local CFCS units, the local banks find their sources of deposits drying up because of competitive money rates for alternative investments.

This competition for local funds is exacerbated by the one-quarter of 1 percent differential that the savings and loan institutions enjoy.

Additional, with our system of communications and information, even local potential depositors have access to money markets in the money sectors, and capital often flows away from the small community to the money centers.

All of this results in a shortage of capital available to the commercial banks.

When this is coupled with restrictive usury rates and the competition from the CFCS, which believes itself to be exempt from usury rates and has the ability to fund its own requirements on a favorable basis from national money sources, it becomes extremely difficult for local banks to compete.

We believe the CFCS should join banking and seek relief in this area for all lenders and not seek its own special exemptions.

H.R. 5732 exempts CFCS from all Federal and State credit-lending laws. This is another gross inequality.

Exemptions for CFCS member institutions show special advantages and concessions to the competitive imbalance with banking and other lenders.

Again, we believe the CFCS should join banking and seek relief in this area for all lenders and not seek its own special exemptions.

Any such relief for the CFCS should be coupled to similar relief for all other lenders, including commercial banks.

Finally, the Illinois Bankers Association does not oppose the house-keeping provisions in the proposed legislation which are designed to enable the rapidly growing CFCS to meet its changing needs.

In fact, we propose strengthening the opportunity for banks to work jointly with the CFCS in serving farmers: Providing authority for Federal land banks to participate in farm loans with commercial banks; and authorizing production credit associations to issue participation certificates to commercial banks and other lenders.

We believe that full competition, so long as it is fair and equitable, is the best way to assure that farmers will continue to receive quality financial services and that consumers will receive good products at the lowest prices.

Banks supported the formation of the CFCS during the early part of this century.

Indeed, the banking industry has encouraged the repayment of Government capital by the system and has not opposed changes in farm credit laws which were required from time to time.

However, we believe the CFCS has progressed in scope far beyond the intentions for which it was created.

The Illinois Bankers Association believes the proposed package of amendments would give the CFCS further authority to lend and provide other services outside the farm sector and would be an additional encroachment on the private sector, including the commercial banking system.

Thus, the Illinois Bankers Association basically opposes those proposed amendments which would result in the CFCS moving further from its farm lending responsibilities into nonfarm activities, and at the same time increasing its inequitable competitive advantages.

The Illinois Bankers Association is grateful for the opportunity to express its views. Although the written testimony has been summarized, I will be pleased to expand further on any part of the bill the subcommittee requests.

Mr. Jones of Tennessee. Thank you, Mr. Lemmerman, for summarizing your statement.

[The prepared statement of Mr. Lemmerman follows:]

STATEMENT OF JACK D. LEMMERMAN, FIRST VICE PRESIDENT,
ILLINOIS BANKERS ASSOCIATION

Mr. Chairman and members of the Committee, I am Jack D. Lemmerman, President of The National Bank of Monmouth, Illinois, and First Vice President of The Illinois Bankers Association. My bank has \$43 million in assets and is in a predominantly agricultural community of 11,000 people. The Illinois Bankers Association is a trade association with a membership of 1015 of the 1251 banks in the State of Illinois. I am also a member of the Government Relations Council of the American Bankers Association. This testimony parallels that of the American Bankers Association given before a corresponding sub-committee of the U.S. Senate.

I appreciate this opportunity to present the Association's views on a number of issues and provisions related to H.R. 4782, a bill to amend the Farm Credit Act of 1971. What we have before us is a significant piece of legislation. The law that emerges will have an important bearing on whether the farmer of the future, like the farmer of today, will have two or more types of strong financial institutions bidding vigorously for his credit business. This legislation could have a profound impact on the competitive climate that will prevail for agricultural lending in the future.

The Illinois Bankers Association believes the current proposed package of amendments would give the Cooperative Farm Credit System (CFCS) further authority to provide financial resources outside the farm sector and would be an additional encroachment on the private sector including the commercial banking system. The amendments also expand the inequities already existing between the operations

of private lenders and the CPCS, thereby reducing the competition between CPCS and other lenders. Thus the Illinois Bankers Association broadly and basically opposes those amendments which would result in CPCS encroachment into non-farm lending activities.

It is a common belief that free intense competition does the best job of allocating credit. Bankers would actually be the first to agree as long as all institutions compete on equal grounds.

My purpose today is to discuss specific difficulties we see in the proposed amendments. Obviously, this bill covers an extensive range of topics embodying a series of complex issues. Some of these topics involve inter-related issues while others are independent subjects. In order to expedite the presentation, and to make the views of the Illinois Bankers Association most clear, I wish to comment on each subject in turn beginning with the banking industry involvement in the ever growing agricultural industry.

Banking and Agriculture

Agriculture is America's largest single industry, with assets totaling \$820 billion, equivalent to approximately 60% of all capital assets of manufacturing corporations in the United States. All phases of agriculture still employ the largest number of people of all industries, and agriculture is the country's most effective creator of new wealth. Banks are deeply interested in the agricultural sector, so much so that banks hold over \$36.8 billion of farm debts - 28% of the total estimated to be \$132 billion. Two-thirds of the nation's full-service banks are in communities of less than 25,000 people. In fact, half of these banks are in towns with fewer than 5,000 residents. According to the latest estimates, nearly 60% of these community banks listed agriculture as the single most important source of income for their communities.

The banking community recognizes that the CFCS plays an important role in providing agricultural credit. We support those amendments which modernize CFCS methods and procedures enabling it to serve the needs of a changing agriculture. However, we oppose the new authorities this legislation would grant that provide new directions while special treatment under the present law remains. Thus our testimony will be limited to those amendments we believe would reduce competition with the private sector by granting undue competitive advantages of CFCS member institutions.

1. Cooperative Eligibility. The proposed legislation would reduce from 80% to 60% the requirement that voting members of cooperatives borrowing from Banks for Cooperatives (BCs) be farmers. However, the legislation before us does not state the criteria used to qualify one as a farmer. We, therefore, feel that the word "farmer" should be properly defined in the language of the bill. Various publications, such as the United States Department of Agriculture Statistical Bulletin No. 609 of July 1978, state that many farmers earn a high percentage of their annual income from off-farm sources. Mr. Chairman, since the Farm Credit Administration deems it desirable, and we agree, that "farmers" continue to control eligible cooperatives, a clear-cut definition of who a farmer is would be necessary.

The continuing erosion in the number of full-time farmers has led to fewer farmers running bigger operations each year. This proposal would broaden the eligibility criteria for rural electric and other cooperatives to enable the BCs to serve an even wider range of credit needs in rural and suburban America. We believe there should be no further liberalization of the farmer-member eligibility requirement for financing. The present 80% standard (70% for rural electric cooperatives) allows a cooperative

eligible for BCs financing to have a substantial number of its membership supported by non-farm income, either as part-time or non-farmer members. It is our belief that if an agricultural community truly needs a cooperative, there will be enough farm constituents available to support it on its current base of farm to non-farm memberships.

2. Financing of Processing and Marketing Activities of Boná Fide Farmers

This proposal would permit Federal Land Banks (FLBs) and Production Credit Associations (PCAs) to finance processing and marketing activities for farmers. Although we understand this authority is not intended to qualify any new borrowers, it does provide new authority to finance off-farm businesses in which a substantial portion of the product processed and/or marketed is not that produced by the borrower. In 1971, Congress wisely limited such agribusiness financing to on-farm activities. We believe this guideline should be continued since it provides a reasonable control as to a qualified borrower. Otherwise, there is danger of opening the door to serious violations of the intent of the law. For example, there are many large processors and marketers, such as in California, who are also growers. Although involved in farm production, their main activities have always been processing and marketing. Processing and marketing activities of such organizations should not be entitled to PCA and FLB financing. We believe processing and marketing needs are being met adequately through existing services provided through the present highly competitive financial environment.

3. Banks for Cooperatives Export Financing. One of the major amendments proposed would authorize the BCs to handle the financing and related servicing functions of farmer cooperatives' direct foreign sales of commodities, or purchases from foreign sources of items needed to conduct their own cooperatives operations. To accomplish this will require the establishment of correspondent relationships with appropriate foreign banks, U.S. banks, and/or their foreign branches. Reciprocal agreements in these correspondent relationships would cover the issuance, receipt, and guarantee of letters of credit, bankers' acceptances, time drafts; also obtaining credit reports on buyers entering into currency exchange transactions, and other services.

This proposal is among the least palatable from our point of view. It seems to us that these transactions can be handled efficiently and effectively by U.S. money center and regional commercial banks. We would want to see justification as to why, if letters of credit are important, a commercial bank could not provide them. Indeed, the commercial banking system, including domestic U.S. banks and their domestic and foreign correspondents, have had no problems in handling the letter of credit needs of commodity buyers and sellers. The present export credit system has fully supported the rapid increase in farm commodity exports (from \$8 billion to \$32 billion since 1971) enjoyed by this country.

Furthermore, Title III of the bill would permit the BCs to make investments in foreign entities that are involved in trading transactions with U.S. cooperatives. U.S. commercial banks have only a very limited authority to make investments in non-bank-owned entities. This is another

example of the unfair competitive advantage being provided to the CFCS, and we recommend these provisions be stricken from the bill.

Mr. Chairman, we suggest that the emphasis in the proposed changes should be to permit a better integration of functions between the BCs and U.S. commercial banks rather than to add additional financial services such as international credit.

4. Interest Rates. H.R. 4782 would exempt the CFCS from state-imposed interest rate limitations; that is, usury laws. This is a gross inequity for other institutional lenders, particularly in periods of high interest rates such as we are now experiencing. In those states having restrictive usury rates, the present environment would permit the penetration into the agricultural loan market by the CFCS without any competitive ability on the part of private lenders to serve the market and would permit a windfall increase in the share of market for CFCS. Smaller commercial banks can not profitably make loans when the usury ceiling is under the market rate.

In many parts of rural America, the CFCS effectively sets the ceilings on farm credit granted by institutional lenders in the area. In periods such as the present, with banks' cost of funds rising, often much higher than the local usury rate and lending rates of local CFCS units, the local banks find their sources of deposits drying up because of competitive money market rates for alternative investments. This competition for local funds is exacerbated by the one-quarter percent differential that the savings and loan institutions enjoy.

Additionally, with our system of communications and information, even local potential depositors have access to money markets in the money centers, and capital often flows away from the small community to the money centers. All this results in a shortage of capital available to the commercial banks. When this is coupled with restrictive usury rates and the competition from the CFCS (which believes itself to be exempt from usury rates and has the ability to fund its own requirements on a favorable basis from national money sources) it becomes extremely difficult for local banks to compete. We believe the CFCS should join banking and seek relief in this area for all lenders and not seek its own special exemptions.

5. Truth-in-Lending. H.R. 4782 exempts CFCS from all federal and state Truth-in-Lending laws. This is a gross inequity. Exemptions for CFCS member institutions allow special advantages, and contribute to the competitive imbalance with banking and other lenders. Again, we believe the CFCS should join banking and seek relief in this area for all lenders and not seek its own special exemptions. Any such relief for the CFCS should be coupled to similar relief for all other lenders, including commercial banks.

6. Taxation of Institutions in the Cooperative Farm Credit System. The institutions in the CFCS currently hold a very substantial proportion of the total amount of farm credit outstanding; \$53 billion for mid-year, 1979. With the proposed changes to the Farm Credit Act of 1971, the role of these institutions is likely to further expand. However, these institutions currently pay little or no Federal income taxes, which enhances their ability to compete with commercial banks and other

agricultural lenders. There appears to be no current basis for continuing this present tax advantage to these strong and stable institutions. Also, the CFCS should make a reasonable contribution to the cost of government.

The tax structure of the CFCS is quite complex. FLBs, FLBAs, and FICBs are currently exempt from Federal income taxes. PCAs are taxable at current corporate income tax rates, but are allowed substantial tax deductions for provisions for loan losses which bear no relationship to actual or anticipated losses. BCs are subject to federal income tax, but pay a nominal corporate income tax due to the cooperative form of organization which allows a deduction for "qualified" patronage refunds. These are refunds in the form of cash (at least 20 percent), allocation of earnings, and stock paid to their member cooperatives. The tax on these dividends are paid by member cooperatives or in turn passed on to their farm members.

Other equitable considerations would call for a termination of the exemptions accorded to FLBs, FLBAs and FICBs. Federal Intermediate Credit Banks currently operate on a cooperative basis and the proposed legislation would clarify the power of FLBs and FLBAs to pay patronage refunds. If these institutions remain tax exempt, it is unimportant that their patronage refunds do not qualify for an income tax deduction. As a result, FLBs, FLBAs, and FICBs can make payment of non-qualifying patronage refunds to their members upon which they do not have to pay tax. If the tax exemption is removed, the patronage refund of such institutions must qualify under the Internal Revenue Code to be deductible for federal income tax purposes. This would result in the amount

of the patronage refund being taxable either to the FLB, FLBA, and the FICB or its members — thereby paralleling the treatment of banks for cooperatives.

Currently, PCA's are required to transfer earnings equal to .5 of 1 percent to loans outstanding at the end of the fiscal year to valuation reserves until such reserves equal 3.5 percent of loans outstanding. These provisions for loan losses are accorded a deduction for Federal income tax purposes. Currently, commercial banks are permitted to make additions to maintain a reserve for loan losses equal to 1.2 percent of eligible loans, subject to reduction to .6 percent in 1982. In 1988, additions to banks' reserves will be based on actual loss experience. It is recommended that PCAs, as well as FLBs, FLBAs, and FICBs, if taxable, be allowed to deduct an addition to bad debt reserves computed in the same manner as competing commercial banks.

7. Incorporation of System Service Entities. H. R. 4782 permits the Farm Credit Administration to charter corporations which perform other than credit services for CFCS institutions. There are a number of farm services such as: farm management trusts, marketing/brokerage, commodity/hedging, computer services, enterprise accounting, payroll service, accounts receivable and accounts payable services, security agency services that could possibly be established by CFCS and chartered as separate entities under this legislation. Insurance to provide various kinds of coverage could also be provided as a service and chartered under this authorization.

The CFCS was not established to sell services. The purpose of the original Farm Credit Act was to provide credit for agriculture. This

proposal liberally defines the powers of such corporate entities, permitting the performance of a wide range of services. It is difficult to evaluate this general authority, but it could be interpreted to mean the CFCS could own and operate many types of non-farm businesses. This would be an unwarranted encroachment into the private sector by corporations benefiting from special ties to the federal government.

8. Increase in FLBs 85% Loan Value Lending Limitation. This proposal would allow FLBs to make real estate loans in excess of 85% of the appraised value of the property securing the loan when guarantees are provided by government agencies. Bankers understand the reasons for this proposed change, allowing FLBs through government guarantee loans to assist low equity borrowers. We are concerned that abuse could result in excessive extensions of credit, causing long term cash flow problems for borrowers. These circumstances would contribute to serious inflationary pressures on land prices. We, therefore, recommend that very tight limitations be placed on the authority allowing loan/value lending in excess of 85%.

9. Equality for Other Financial Institutions (OFI's). The FICBs were organized in 1923 as farm loan discount facilities principally for commercial banks and OFIs. PCAs were organized in 1933 and since then have become the primary benefactor of the FICBs discounting facilities. Today, 97% of the FICBs \$15.5 billion in loan discounts are with PCAs. In this environment, banks and OFIs are finding it difficult to obtain access to FICBs discount services as originally intended. This dis-

counting facility seems to be administered differently in the various FICBs regions. We believe it is appropriate for Congress to restore the original purpose of FICBs by requiring in the law equal treatment for OFIs.

We recommend amending the Farm Credit Act to direct FICBs to provide the same services, on the same terms, to both PCAs and OFIs. Major areas that need attention to achieve equality are as follows:

- Types of loans eligible for discount - Specifically allowing agribusiness loans to be discounted for OFIs.
- Loan maturities - FICBs are handling loans for PCAs in excess of 7 years but not doing so for OFIs.
- Individual lending limits - We understand there are many instances where the individual lending limits for OFIs have been reduced substantially below the 100% of capital level generally available to PCAs.
- Capital to loan ratio - OFIs are limited to a level substantially below the 1 to 10 ratio generally permitted PCAs. In fact, 1 to 6 or more limiting relationships have been frequently required of OFIs; at these levels it is difficult to utilize capital efficiently.
- Tax exempt reserve for loan losses. The tax deduction for addition to loan loss reserves of PCAs exceeds the allowable deduction for OFIs.
- Loan data processing services. FICBs lending-related services offered to PCAs should be made available to OFIs on a comparable basis.
- Credit standards and policies. Credit standards and policies should be administered equally to PCAs and OFIs. We have frequently heard of situations where a loan discount offered by an OFI was rejected, but later accepted for a competing PCA.

- OFIs representation on FICBs boards. We believe it would be appropriate for OFIs to have representation on district FICBs boards, even if not voting. Such a presence would provide the board important input as to the needs of OFIs.

Mr. Chairman, we strongly urge that these recommendations be included in the revised Farm Credit Act, and by doing so, remove the present trend of OFIs becoming a more distant "step child" of the CFCS. This would return OFIs to the relationship intended when FICBs were originally chartered.

Finally, the Illinois Bankers Association does not oppose the "housekeeping" provisions in the proposed legislation which are designed to enable the rapidly growing CFCS to meet its changing needs. In fact, two proposals strengthen the opportunity for banks to work jointly with the CFCS in serving farmers: providing authority for Federal Land Banks to participate in farm loans with commercial banks, and authorizing Production Credit Associations to issue participation certificates to commercial banks and other lenders.

Conclusion

We believe that full competition, so long as it is fair and equitable, is the best way to assure that farmers will continue to receive quality financial services and that consumers will receive good products at the lowest prices.

Banks supported the formation of the CFCS during the early part of this century. Indeed, the banking industry has encouraged the repayment of government capital by the system and has not opposed changes in farm credit laws which were required from time to time. However, we believe the CFCS has progressed in scope far beyond the intentions for which it was created. The Illinois Bankers Association believes the proposed package of amendments would give the CFCS further

authority to lend and provide other services outside the farm sector and would be an additional encroachment on the private sector, including the commercial banking system. Thus, the Illinois Bankers Association basically opposes those proposed amendments which would result in the CFCS moving further from its farm lending responsibilities into non-farm activities, and at the same time, increasing its inequitable competitive advantages.

The Illinois Bankers Association is grateful for the opportunity to express its views. I would be pleased to respond to questions.

Mr. MADIGAN. Mr. Lemmerman, before you leave the table, you skipped a page of your testimony. At least that was my impression as I was trying to follow it.

It seems to me that you skipped over banks for cooperatives having this export financing capability which, in your written testimony, you described as being the least palatable of the different proposals, from the bankers' point of view.

I wondered if you intended to skip over that in the interest of time or if you had changed your mind on that, or what happened.

Mr. LEMMERMAN. I have skipped over that in the interest of time.

I, too, have an important appointment in Chicago later on today, and I was trying to make this as brief as possible.

If you want me to, I will comment on it or read what was in the testimony, whatever you prefer.

Mr. MADIGAN. We are trying to allow all of the witnesses to testify, and, in order to do that, we were given the opportunity to have a question-and-answer exchange.

But I do think the point needs to be made to the people in the room that you have in your written testimony raised the objections to that as well as to several other things which I would hope that the proponents of this bill would look at.

I would hope that they would look at all of the objections that you have raised and respond to those points at the time to the subcommittee so the subcommittee will be better informed.

And I do appreciate your going to the trouble of coming down here. Thank you.

Mr. JONES of Tennessee. Mr. Burgee Amdahl, president of the Bank for Cooperatives, St. Paul, Minn.

Mr. Amdahl, you may begin.

STATEMENT OF BURGEE AMDAHL, PRESIDENT, BANK FOR COOPERATIVES

Mr. AMDAHL. Thank you, Mr. Chairman, Mr. Madigan.

My name is Burgee Amdahl. I am president of the St. Paul Bank for Cooperatives. We operate in the seventh district, serving the States of North Dakota, Minnesota, Wisconsin, and Michigan.

The board of directors of our farm credit banks does support all 28 provisions of H.R. 4782, but today I am here particularly to testify on behalf of the authority for export financing and leverage leasing for the banks for cooperatives.

The thrust and the input for the legislative authorities for export financing really started in 1975 and were completed in a study in 1976 when the banks for cooperatives surveyed the 21 major cooperatives that were member-owners of the system and who, at that time, were directly and indirectly exporting \$3 billion worth of exports in some 9,500 separate transactions.

The response of that study: Eleven of these 21 cooperatives reported that they did need better credit information; 14 indicated that they needed speedier payments for their transactions; 8 sought more market information, and 8 wanted more market assistance.

So the current legislative thrust grew from that study and further contacts and inputs from the cooperative owners of the banks for cooperatives system.

Questions can be raised as to why export financing services should be authorized when they are already available from other sources, but the owners continue to indicate that they do have some problems in handling their financing arrangements in these areas.

And one of the areas seems to be, for example, in the timing of the collection processes themselves, and then, particularly, in credit evaluation processes.

And much of these problems stem from the fact that their primary lenders, their banks for cooperatives, are not involved in these transactions.

And if the banks could be involved, obviously there would be linkages with commercial banks throughout the country with the 13 banks for cooperatives, to speed up the collection processes, for example and I am not sure that what commercial banks could gain more business relations with the banks and the cooperatives in that route than they might lose in financing itself.

Another question that seems to be surfacing is that of risk, and there aren't many studies on the risk area of export financing.

But at least in the two authentic studies that seem to be available, they indicated that loan charge-offs had actually been one-third less than the financial transactions of export financing and letters of credit, in that area, than credit as a total.

In the risk area, it is also important to note that the banks are already providing two-thirds of the credit that their members use. So that, if there are losses for any reason in such international transactions, they still revert back to the problems in an individual balance and become a problem for that borrower and that primary lender, who is their bank for cooperatives.

Concerns have also been raised about the amount of funding capital that this type of financing might really involve. And, again, it must be remembered that the banks are providing two-thirds of the credit in these commodities, right up to the point of export. So that we are really looking at an extension of 90 to 180 of this credit before its collection, and the majority of these transactions are seasonal in nature.

To the best of our estimates, we see that this might require, if we were involved, an amount of not to exceed three-quarters of a billion dollars for about 1 to 2 percent of our total funding in the system.

The question of unfair competition has been raised, and, here again, it must be remembered that the banks are dealing in a limited clientele. They are dealing only with their own members and have no intention of competing with commercial banks in any other market sector.

I also believe that an objective evaluation of the authorities and the thrust of the International Banking Act's intent, would reveal that commercial banks will have as many, if not more, advantages than the banks for cooperatives are asking for.

Also, cooperatives, of course, would be able to go and use the commercial source if, in fact, they provide a better one.

Perhaps the real competitive advantages are really only those that exist in the cooperatives structure itself, and that is really being able to return whatever savings or earnings there are back to the members.

Under the leverage leasing provision, the purpose is similar, in asking for a service for a limited clientele, for the owners of the system.

Cooperatives too will need to make large investments in transportation and grain storage, mining, manufacturing, and distribution systems. And some of these will lend themselves to leverage lease financing.

The purpose is to be able to provide their banks to allow or provide the debt capital for the benefit only of the owner.

It should also be remembered that it is not only large, well-known cooperatives who are seeking and need help in export financing. I have cited an example in my written testimony of the types of small and intermediate size cooperatives who are involved in exporting and have little reason to be known by large international banks in the remote rural areas.

It should also be pointed out that cooperatives too are involved in important transactions. They too import supplies from crude oil to potash and so on.

And so the authorities here are looking not only at exporting, but also at assistance in importing, needed inputs for production.

Farmers, in total, have \$800 million invested in their banks for cooperatives in net worth, and they are asking their cooperatives to gain a larger share in the export market.

And, in turn, we find our owners asking the banks that they own to provide them some financial assistance. And it seems that, if anyone should have a right to benefit from selling their products in an international marketplace, it ought to be the farmer.

It is a reasonable request of the farmer cooperative to seek export and import financial assistance and leverage leasing arrangements from a banking system that he has invested in and owns and relied upon for 46 years.

It is a system that does require no government expenditure for either its operation or its supervision.

We would respectfully urge your passage of H.R. 4782.

Mr. JONES of Tennessee. Thank you very much, Mr. Amdahl.

We will see that your statement is made a complete part of the record. I think you evidently summarized it, did you not?

Mr. AMDAHL. Yes; I did.

Mr. JONES of Tennessee. Without objection, it will become a part of the record.

[The prepared statement of Mr. Amdahl follows:]

STATEMENT OF
BURGEE AMDAHL
PRESIDENT, ST. PAUL BANK FOR COOPERATIVES
ON BEHALF OF THE
ST. PAUL BANK FOR COOPERATIVES

Mr. Chairman and members of the committee: My name is Burgee Amdahl. I am president of the St. Paul Bank for Cooperatives, which is fully owned by and serves 776 cooperatives with 169,000 farmer members in the states of North Dakota, Minnesota, Wisconsin and Michigan. These cooperatives have an equity investment of \$130 million in the St. Paul Bank for Cooperatives. Currently their loans outstanding total \$1.7 billion to furnish capital for intermediate- and long-term needs.

In our district, which is the Seventh District of the Farm Credit System, the Federal Intermediate Credit Bank through its production credit associations and the Federal Land Bank serve 121,000 farmers. Together, the Farm Credit Banks of St. Paul have a total loan volume to farmers and their cooperatives of \$7.6 billion.

The Board of Directors of the Farm Credit Banks of St. Paul supports all 28 proposed revisions to the Farm Credit Act of 1971 contained in H.R. 4782. Today I am here particularly to testify on behalf of the authorities for export financing and to touch upon leverage lease transactions.

Cooperatives have gradually been increasing their share of the export market. Five years ago they accounted for 7% of total direct grain sales overseas, for example; they now account for 11%. In just a few years, they have doubled their export load-out capacity to nearly 20% of all U. S. capacity.

In 1976, the Banks for Cooperatives System conducted a study of the export financing needs of 21 major cooperatives who were borrower-owners of the system. At that time, they exported directly and indirectly a total of \$3 billion worth

of goods in 9,500 separate transactions. These cooperatives had total loan commitments with the Banks for Cooperatives of \$775 million. Because their cooperative banking system was not authorized to provide such service to them, these cooperatives fulfilled their needs for export financing and financially-related services through existing commercial bank channels and indirect transactions. In response to our interviews, 11 of the cooperatives reported that they needed better credit information, 14 needed speedier payments, 8 sought more market information, and 8 wanted more market assistance. This study of these major cooperatives pointed out clearly and distinctly the needs on the part of Banks for Cooperatives' borrowers for export financing services. The current legislation grew out of this study and further contacts of the member-owners of the Banks for Cooperatives' System.

We believe that the timing of the current legislation is appropriate. Cooperatives are concentrating on increasing their participation in the international marketplace as a response to the demands of their farmer members. It is, therefore, important for their Farm Credit System to begin taking initial steps in meeting their expanding needs for export and import financing services. The Banks for Cooperatives realize that developing services in export financing will be a gradual process. We will implement authorized services as our members' needs evolve.

Questions have been raised as to why export financing services should be authorized when they already are available from other sources. Our owners ask, in return, why shouldn't they be able to provide for their needs through their own banking system? They continue to indicate they do have problems financing their needs through commercial means.

Payments for cooperative export transactions must flow through several layers of banks, causing costly time delays and additional overhead. Funds flow relationships have not been established between the commercial and cooperative banking structure. As the Banks for Cooperatives become involved in export and import financing, we believe through the banking relationships among the 12 District Banks for Cooperatives and the Central Bank for Cooperatives collection efforts can be speeded up to save the farmers money.

Another question that has surfaced is whether or not the Banks for Cooperatives will be increasing their exposure to risk. Studies have shown risks of banks in financing international transactions to be less than risks involved in domestic loans. Further, the Banks for Cooperatives currently furnish two-thirds of the credit needs of their member borrowers. For those cooperatives doing business in the international marketplace, they already are bearing the burden of any risks in these transactions. If they could not collect for a given sale, for example, that liability would be reflected in the overall balance sheets. Since the Banks for Cooperatives are the major source of credit for those cooperatives, the Banks already bear the burden for such risks. If the Banks were providing financing for exports from the time they leave U. S. shores until they reach their final destinations, the Banks would have better knowledge of the position of their member-borrowers. The Banks also would be able to diagnose problems sooner with borrowers, whereas now the Banks bear the risk but have little input as to how that risk is minimized.

Another question that has been raised concerns amount of funding that export financing might involve for the Farm Credit System. The Banks for Cooperatives already are financing two-thirds of the commodities of its member borrowers

up to the point of export. Since export financing is normally only for short periods, 90 to 180 days, and since transactions would be spread out over a 6 to 9 month period of commodity harvesting and transporting, the maximum demand by our members for export credit at any given time would not exceed \$3/4 billion at the present time. This amount represents a very small fraction of the total funds raised by the Farm Credit Banks each year. We cannot foresee that this small increase in demands for funds would pose any serious funding problems.

The question has been raised as to whether provisions included in this legislation would allow the Banks for Cooperatives to have unfair competitive advantages over commercial banks. The Banks for Cooperatives, however, are limited to serving only those borrowers who qualify as farmer-owned cooperatives and have no intention of competing with commercial banks in other market sectors. The cooperative owners of the system are asking only that the Banks they own be granted the authority to provide them an efficient export financing system to meet their specialized needs.

Cooperatives have the option of going to commercial banks if they choose to do so. What the Banks for Cooperatives seek in the current legislation is a minor extension of normal business activity: The provision of credit for improving the income and well-being of American farmers, ranchers and their cooperatives "by furnishing sound, adequate and constructive credit and closely related services." The Banks are not deviating from the objective Congress established for the Farm Credit System in 1971 by seeking additional provisions for export financing and leverage leasing. If there is a competitive advantage in the cooperative Farm Credit System, it is that advantage already inherent in the concept of cooperation. By pooling their needs for credit, farmers, ranchers and

their cooperatives have been able to secure funds at very competitive rates. The other cooperative advantage is that what margins the Banks for Cooperatives generate are returned to member-borrowers as patronage refunds. That advantage is an advantage that exists now. It benefits agriculture and it benefits the consumer.

Under the leverage leasing provision of the current legislation, the purpose is similar to the purpose in securing expanded provisions for export and import financing. As we look to the future for agriculture, capital requirements will be tremendous. Cooperatives will need investments in transportation, grain storage, mining and manufacturing. Cooperatives should be able to take advantage of leverage lease financing. The Banks for Cooperatives again are seeking authority to finance only such projects as materially would benefit a member-borrower. The Banks are not seeking to take away customers from any other sector of commercial banking and/or leasing companies. The Banks for Cooperatives merely seek to serve borrow-owners with a more complete package of credit. They already finance many of these projects directly and it is logical to extend their business into projects that are financed indirectly through leverage leasing for use by their members.

For cooperatives, both large and small, the Banks for Cooperatives are their major lender. They logically look to them for their financial and financially-related services. Since they own their banks in entirety, it is reasonable for them to do so. It is easier for larger cooperatives to go to international commercial banks for financing of projects for which the Banks for Cooperatives are not currently authorized such as export financing or leverage leasing. Provisions of the current legislation would enable all owner cooperatives from

large to small cooperatives to have easier accessibility to the services they need in these financial areas. We believe the Banks for Cooperatives have a clear mandate to offer these services to their members in keeping with the intent of the 1971 act and with the goals of members.

The St. Paul Bank for Cooperatives serves some of the largest and smallest cooperatives in the United States which are involved in export and import transactions. In total, we have 13 borrowers that export products abroad. They own one-third of the equity of the Bank. They export such commodities as: soy flour, beet pulp, durum wheat, corn, barley, oats, sunflowers, wild rice, milk powder, turkeys, cheese, eggs, fluid milk, livestock, dry edible beans, and frozen fruit. Dollar volume of their direct exports currently exceeds \$100 million and dollar volume of indirect exports exceeds \$300 million.

Many of you would recognize names like "Land O'Lakes" and "Grain Terminal Association" who have testified on behalf of this legislation. But we have small- and intermediate-sized cooperatives as well for whom export financing services are also needed. I brought with me today a sample of one of the products exported by a member of our Bank - it is buckwheat seed. This product is used in Japan to make buckwheat noodles, a popular dish during the New Year's holiday. They even use the hull to make pillows. Minn-Dak Growers at Grand Forks, North Dakota, is an 850-member growers cooperative that exports 2,000 metric tons of buckwheat to Kasho, Ltd., of Tokyo. When Minn-Dak Growers undertook this transaction, it also looked to the St. Paul Bank for Cooperatives for advice. We were the intermediary bank in this transaction, assisting in setting up paperwork and serving as an advisor during the time this cooperative negotiated its contract with the Tokyo firm. We could not serve our borrower in the capacity

of being a confirming bank and, therefore, the payments are delayed to our member-borrower. A provision of the current legislation would allow us to assist our members, such as Minn-Dak Growers, in a much more meaningful way. We would establish correspondent relationships with foreign banks for the transmission and receiving of funds.

I would like to point out that we have been involved in import transactions also on the part of our member borrowers. Cooperatives, as other sectors of the American economy, are increasingly dependent on importing natural resources from other countries. Refineries owned by our member-borrowers run primarily on imported crude oil. Virtually all of our farmers' potash comes from Canada. So it is important to keep in mind that we will be serving our borrowers both as importers and as exporters with passage of the provisions contained in this legislation.

Over the course of these hearings, you have heard testimony about what exports mean to the farmer. There is a simple economic fact that farmers have long realized: Any commodity is worth less where it is plentiful than where it is scarce. For the farmer to receive the highest possible price for his product, he must control it from the time it leaves his farm until it is deposited in the hands of the user. Farmers today are caught in a very tight squeeze between the increasing cost of production and the price they receive for the product they produce. It is this economic fact that motivates them to assert themselves in the international marketplace. Through their cooperative system, they can control their product from the time it leaves the farm until the time it reaches the consumer. In this way, profits will be returned to the farmer through his own cooperative organization. The average farmer has invested more than \$5,000

in his cooperative. And that cooperative, in turn, has through the years invested in its wholly-owned banking system, the Banks for Cooperatives.

By all estimates, predictions are the U.S. exports will increase in the future. Exports greatly influence farm prices, particularly for grains. It is important, however, for consumers to recognize that an increase in farm income does not mean money taken from their pockets. There is only a nickel's worth of wheat in a loaf of bread. And we live in a country where the most expensive loaf of bread costs seven times what the least expensive loaf is sold for. And you had better believe that that phenomenon has little to do with the cost of wheat.

Farmers have an \$800 million investment in their Banks for Cooperatives. Farmers are asking their cooperatives and cooperatives in turn are asking banking system they own to provide them with financial assistance in the international marketplace. Cooperatives are the mainstay of the U. S. agricultural economy and are the simplest, most direct means to get maximum returns from export sales directly into the hands of farmers.

If anyone should have a right to benefit from selling his products in the international marketplace, it should be the farmer. It is the farmer who takes the risk of falling prices. It is the farmer who suffers the burden of bad weather. It is the farmer who should have the right to determine that his cooperative serve in his behalf in marketing his products abroad and in importing his needs for his production inputs.

It is a reasonable request of the farmer cooperative to seek export and import financial services and leverage leasing arrangements from the banking system in which it has invested and upon which it has relied for 46 years. That is a system which requires no government expenditure either for operation or supervision as it is now entirely borrower owned. We would respectfully urge you to pass as presented the proposed amendments of the Farm Credit Act of 1979, H.R. 4782.

Mr. JONES of Tennessee. Mr. Stewart from North Dakota, we are delighted that you are here and appreciate you coming this far. And you may proceed.

STATEMENT OF LLOYD STEWART, PRODUCTION CREDIT ASSOCIATION OF MANDAN, SEVENTH FARM CREDIT DISTRICT

Mr. STEWART. Thank you, sir, very much. I appreciate this opportunity.

Mr. Chairman and members of the Subcommittee on Conservation and Credit of the House Committee on Agriculture regarding the Farm Credit Act Amendments of 1979. My name is Lloyd Stewart of Carson, N. Dak., and I am addressing you on behalf of the Production Credit Association of Mandan, N. Dak., of the seventh farm credit district.

I am a farmer and rancher from western North Dakota and a director of a PCA of Mandan since 1959.

This year, to date, our association has loaned over \$147 million to over 2,300 borrowers.

During the same period of time, we had credit life insurance policies covering 2,082 members, and 335 members carried crop hail insurance with us during this bad year.

We also have 195 members using our farm record system, known as Agrifax.

I am testifying today because of my deep concern for the future of agriculture and a successful farm credit system. Credit and credit-related services are essential to a successful farmer today.

It is imperative that our PCA system be permitted to provide those services which are closely related to the farmer's financial activities.

We provide a farm recordkeeping service called Agrifax that is farm oriented and supplies income and expense records, depreciation schedules, farm business analyses, cash flows, and profit and loss statements.

Armed with this tool, the PCA and the farmer-borrower are in an excellent position to make financial decisions that will affect the future of his farm.

Very compatible to the financing and farm record services are credit-related insurance programs.

Farm people demand confidentiality and will open up completely to the counseling of their PCA creditor on day-to-day decisions.

No one in the world has more exposure to the farm family than does his creditor. We know his every purchase, the net worth of his unit, the health of his family, and his plans for the future. Putting all these essentials together, the farmer has an opportunity to truly manage his business and not be oversold or undersold on related services.

I believe that farmers and ranchers should have a choice of places to go for credit, recordkeeping, and insurances, and I also believe that PCA's can do the best job of providing these services.

I believe that it is imperative that our farm credit system be permitted to provide services which are closely related to the financial activities of the farmer if we are to effectively finance this and future generations of farmers and ranchers.

And, Mr. Chairman, if I might add just a support in addition to the bill of H.R. 4782, recognizing that conservation was part of this, if I might just add to that, that I am a longtime supervisor for the Grant County Soil Conservation District in western North Dakota.

I think that if these 3 percent of the people who represent the farmers—can hardly be expected to take care of all the natural resources of this great Nation.

And, with the help of some kind of support, any endeavor for the good of this soil conservation service, in addition to this.

Thank you very much for the opportunity of being here today.

Mr. Jones of Tennessee. Thank you very much, Mr. Stewart, for your statement. We appreciate it.

Mr. Bueling, you may proceed.

STATEMENT OF RUSSELL M. BUELING, PRODUCTION CREDIT ASSOCIATION OF FARGO, SEVENTH FARM CREDIT DISTRICT

Mr. BUELING. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee, I am Russell M. Bueling of Sheldon, N. Dak.

I own and operate a 2,200-acre crop and livestock farm.

I am appearing here in a dual role as an active farmer-rancher and a director representative of our production credit association.

I've been a member of the Production Credit Association of Fargo for more than 35 years and have represented the membership on the board of directors nearly 18 years.

The Production Credit Association of Fargo serves in excess of 2,000 members in southeastern North Dakota. Many of these members have taken advantage of the availability of the various related financial services which are optional on the part of the member.

Several districts of our system have offered collateral insurance which seems to be out of character with previous testimony by independent insurance agents and some farm organizations.

Survey results indicate a need and a desire by our members that collateral insurance be offered to them by their local production credit association.

A recent survey in our district, where 231 farmers participated, resulted in 92 indicating less than adequate coverage.

Fifty-nine said that they had not had a physical appraisal of their property by their insurance agent for well over 2 years.

Recent fires in a potato warehouse and several grain dryers in our area made it known how under-insured farm property generally is.

I believe that these figures indicate a real need for a more adequate servicing by the insurance industry.

The personnel of the production credit association deal only with farmers and have constant contact with their members on the farm. Therefore, a periodic update of their insurance program and needs would be assured.

The income derived from the sales of related services becomes a part of lowering the overall costs involved in the running of their lending institutions, which I believe is a prudent way to run an effective farm lending organization.

The sunflower industry in North Dakota and western Minnesota has grown by leaps and bounds and there will be many farmers engaged in the raising of seed as well as banding together in groups in the storage and processing of this new and important cash crop.

I believe it is important that our farm credit legislation includes this provision for allowing groups of farmers to market and process their commodities in this way.

I am grateful for the opportunity to express my views before this subcommittee and thank you very much.

Mr. JONES of Tennessee. Thank you very much, Mr. Bueling. Your suggestions will certainly be given serious consideration.

That concludes the morning session.

You know, there are a number of people in this audience that I would like to personally recognize. I have some personal friends here that I have known for a good many years, and I was going to say this.

Ed Madigan, I don't believe that we have had an audience that came from as many areas as this audience does today, and I do certainly appreciate it. It speaks well for you people having come that far to be interested in agriculture as you are.

I want to recognize Ray Wax in the audience, because Ray and I have been friends for about 30 years. I am just glad he is here today.

We have worked with ASCS together for a long time.

We have a gentleman from Chappell, Nebr., who is here. Mr. Billy Ray. I am delighted you are here.

I think he may be visiting down here somewhere, but I called for him yesterday to tell him I was going to be here because we have been working on Federal crop insurance together.

Thank you, Mr. Ray, for being here.

The subcommittee will stand in recess until 1:30.

We can be here until about 5, so we are going to do our best to hear everyone. And if we don't get to you, we will file your statement just the same.

[Whereupon, at 12:20 p.m., the subcommittee recessed to reconvene at 1:30 p.m. this same date.]

AFTERNOON SESSION

Mr. JONES of Tennessee. The Subcommittee on Conservation and Credit will resume its hearing at this point.

Congressman Madigan is here, but he is doing some television on the outside, and he will be back in just a moment.

But I think, for the sake of time, we should begin.

Mr. Harold Steele, president of the Illinois Farm Bureau in Bloomington, Ill. is our first witness, and he is to be followed by Dick Johnston, the president of the Missouri Farm Bureau.

So, if you gentlemen would care to take your seats.

Harold, you can lead off, and then we will hear Mr. Johnston.

We are delighted that both of you are here and that you can take part in our hearing.

STATEMENT OF HAROLD B. STEELE, PRESIDENT, ILLINOIS FARM BUREAU

Mr. STEELE. I do appreciate the opportunity of being here.

My name is Harold B. Steele. I am president of the Illinois Farm Bureau, a voluntary membership organization which includes in its membership some 75 to 80 percent of the farmers in Illinois.

We appreciate this opportunity to appear today and present to you some brief thoughts on H.R. 4782, a bill to amend the Farm Credit Act of 1971, and on the conservation programs which are so important to our agricultural community.

The cooperative farm credit system is an integral part of Illinois agriculture. Many of our farms, much of our machinery and livestock, and many of the businesses that serve agriculture are financed by the cooperative farm credit system.

In addition to their financial services to Illinois farmers, the farm credit system has been a good neighbor in our common efforts to serve the Illinois farmer.

And I might say at this juncture, Mr. Chairman, that, because of time, I will be highlighting some of this, but I would ask that the entire statement be included in the record.

Mr. JONES of Tennessee. Without objection, the entire statement will be placed into the record after your summation.

Mr. STEELE. Farm bureau supported the farm credit system in its legislative efforts early in the decade, thereby assisting in the passage of the Farm Credit Act of 1971. However, farm bureau did raise reservations at that time about the role of the system in providing certain collateral services.

Since passage of the 1971 act, this area has continued to cause concern and has been the primary source of misunderstanding between our two organizations.

Last year, farm bureau delegates from 49 States and Puerto Rico passed a resolution seeking to prohibit the cooperative farm credit institutions from selling property and casualty insurance. We will not dwell on farm bureau policy on this subject, because I am sure it was clearly stated by Mr. James Putman, president of the Tennessee Farm Bureau at your Memphis hearing.

Mr. JONES of Tennessee. He did cover that when we were in Tennessee.

Mr. STEELE. So I will only mention this today to show that we believe that it is important that we carefully consider the services be offered and to be as specific as possible in setting the conditions of those offerings.

It is because of this experience that we believe care at this time can avoid future misunderstandings and unnecessary friction with the farm community.

The Illinois Farm Bureau does not have detailed recommendations to make on H.R. 4782 at this time. This subject is under consideration by our resolutions committee in the preparation of recommendations for deliberation by the 471 farmer delegates to our annual meeting in December.

The position approved by the delegates will serve as the Illinois recommendation to the American Farm Bureau Federation for consideration at its annual meeting in January. Thus, we will be in a much better position to give you farm bureau recommendations after January 10, 1980.

At this time, we do not see major provisions of the proposal which we will likely oppose. We do believe, however, that there are provisions which need further explanation as to need and more specific language incorporated in the bill.

We need to be sure that there is proper understanding now and in the future as to what is being authorized.

We have discussed these proposals on numerous occasions in the past month with officials of the St. Louis Bank, and they have helped our understanding.

Yet, we believe it is highly desirable that the most specific language possible be included in the bill which will prevent any misunderstandings in the future.

As an example, I would like to bring to our attention that, under title III, sections 301 and 304 in the export area, this does bring some questions to our mind. It brings questions to our mind even though, at State farm bureau, we have been one of the strongest advocates of exporting agricultural commodities.

But there are questions in our mind as we do look at the wordage, and we wonder just how much involvement would eventually come up with the farm credit system.

We would suspect that, or believe that the language in the bill is broad and general and does suggest to us that the bank could be involved primarily in virtually any export activity.

So, again, today we are raising this as a question: What specifically does that language include?

And we raise the question even though we believe very strongly in the export market.

In all likelihood, this lending institution needs to be a part of it, but let's be specific now, so that we do know what it will mean.

And then, this same type of comment, I believe, is in order as we look at another section, in authorizing the PCA's and lending banks to become involved in the financing for basic processing and marketing, and the provisions permitting the Federal Credit Administration Charter Corporation to perform certain issues.

Here, again, Mr. Chairman, and Mr. Madigan, the question that comes to our mind is, could this, for instance, could these provisions suggest that the PSA's might finance hedging activities or speculation activities? We don't know.

We believe that it should be specific enough that we would know.

I do reemphasize that, after our delegates examine these issues, we may, indeed, support each of them, but our questions are raised today, should we interpret it and be more specific so that we don't have to guess in the future.

Again, I would say that, after January, we would indeed welcome the opportunity to submit additional comments to you in this regard.

Now, if I might step over to the next area of conservation.

Farmers know their future and their son's future depends on their personal stewardship of the soil. They know it is disastrous to have it wash away.

However, conservation is often expensive. It can present severe economic burdens to certain landowners which make it impractical to practice the conservation needed to save soil.

Therefore, we welcome your assistance and the assistance of the general public to preserve the productivity of farmland for future generations.

The Illinois Farm Bureau favors conservation cost-sharing programs as provided by the Agricultural Stabilization and Conservation Service. Without such cost-sharing assistance, landowners would be unable to justify the short-term economic burdens of many useful conservation structures and techniques.

We believe the current limits on the amount of cost-sharing assistance per farm should be increased or eliminated in a time of uncontrolled inflation, to permit landowners to apply more enduring erosion practices and structures.

We also are concerned about the current manpower level in the Soil Conservation Service.

Many new programs are being directed at the agricultural sector which are requiring more technical assistance. Often the workload far exceeds the current SCS manpower.

We cannot expect to make reasonable progress in the application of enduring conservation practices and structures without the necessary number of competent technical personnel.

We also know that, in the years behind us, this group of people, not only have been stewards to the farms, but have had great expertise in bringing into being the conservation we have today.

So we look with favor to this service and say that we need to look at the manpower available too.

And, at the same time, as we look at the 208 hearings, many farmers spoke out loudly and clearly for locally controlled voluntary conservation programs, and it is our sincere hope that conservation programs will be kept on a voluntary basis.

Mandatory soil conservation programs cannot be applied to an industry like agriculture with such diverse economic and physical conditions. So believe, given the power of incentives, that this is the proper route to follow.

We have several ideas which are not currently being utilized in conservation programs which we feel merit study and consideration, but it funnels around a system of incentives.

We need more research on how to estimate accurately the amount of soil eroding away.

We need to know more precisely if the soil does erode into streams and does cause harm to those streams.

So, again, we are saying that more concern is needed in this whole area.

We believe and know that there are a number of implements available to farmers today to assist them in their conservation of the soil.

We believe incentive programs of low-interest rates and that sort

of thing may well be applied to help in an overall effort. So, in a cost-sharing type of program, this will be a possibility.

We do not believe in participation in a certain conservation activity being required as a condition of eligibility for Federal farm programs. The diversity of weather, economic conditions, and soil conditions themselves make it unreasonable to assume that, under certain sets of circumstances, conservation practices will be uniformly appropriate at any one time.

So, I thank you very much for this opportunity to appear.

And that is all. Thank you.

Mr. JONES of Tennessee. Thank you very much, Mr. Steele.

[The prepared statement of Mr. Steele follows:]

Statement by
 Harold B. Steele, President
 Illinois Farm Bureau
 to
 Credit and Conservation Subcommittee
 House Committee on Agriculture
 November 10, 1979
 Champaign, Illinois

Mr Chairman, Members of the Committee, I am Harold B. Steele, President of the Illinois Farm Bureau, a voluntary membership organization which includes in its membership some 75-80% of the farmers in Illinois. We appreciate this opportunity to appear today and present to you some brief thoughts on HR 4782, "A Bill to Amend the Farm Credit Act of 1971" and on the conservation programs which are so important to our agricultural community.

The Cooperative Farm Credit System is an integral part of Illinois agriculture. Many of our farms, much of our machinery and livestock and many of the businesses that serve agriculture are financed by the Cooperative Farm Credit System. In addition to their financial service to Illinois farmers, the Farm Credit System has been a good neighbor in our common efforts to serve the Illinois farmer.

Farm Bureau supported the Farm Credit System in its legislative efforts early in the decade thereby assisting in the passage of the Farm Credit Act of 1971. However, Farm Bureau did raise reservations at that time about the role of the System in providing certain collateral services. Since passage of the 1971 Act, this area has continued to cause concern and has been the primary source of misunderstanding between our two organizations. Last year, Farm Bureau delegates from the 49 states and Puerto Rico passed a resolution seeking to prohibit the Cooperative Farm Credit institutions

from selling property and casualty insurance. We will not dwell on Farm Bureau policy on this subject because it was clearly stated at your Memphis hearing by Mr. James Putman, President of the Tennessee Farm Bureau. We mention it now only to emphasize the need to consider carefully what services are to be offered and to be as specific as possible in stating the conditions of those offerings. It is because of this experience that we believe care at this time can avoid future misunderstandings and unnecessary friction within the farm community.

The Illinois Farm Bureau does not have detailed recommendations to make on HR 4762 at this time. This subject is under consideration by our Resolutions Committee in the preparation of recommendations for deliberation by the 471 farmer delegates to our annual meeting in December. The position approved by the delegates will serve as the Illinois recommendation to the American Farm Bureau Federation for consideration at its annual meeting in January. Thus, we will be in a much better position to give you Farm Bureau recommendations after January 10, 1980.

At this time, we do not see major provisions of the proposal which we will likely oppose. We do believe, however, that there are provisions which need further explanation as to need and more specific language incorporated in the bill. We need to be sure there is proper understanding now and in the future as to what is being authorized. We have discussed these proposals on numerous occasions in the past month with officials of the St. Louis Bank and they have helped our understanding. Yet, we believe it is highly desirable that the most specific language possible be included in the bill which will prevent future misunderstanding. As an example of this need for understanding and clarity, let us look at the provisions relative to export marketing.

The Illinois Farm Bureau has been one of the country's strongest advocates of increased exports of agricultural products. We have discussed the provision of Title III, Sec. 301 and 304 with St. Louis Bank representatives and have a better understanding of the intent of this section of the proposal. However, for us to understand and fully support this provision, we need more information which quantifies the need for the Bank of Cooperatives to become involved in these activities. The language in the bill is broad and general and suggests to us the Bank could become involved in virtually any export activity.

Now, before some accuse us of being negative about the involvement of the Bank in export transactions, I wish to emphasize that we are not at this time taking a position for or against this section. We are suggesting that we need more information to help in understanding the need for the Banks to get into certain export activities and we are suggesting the language of the bill be as specific as possible. Failure in this regard may bring frustrations in the next decade and could affect the Banks' existing customers.

Some of the same comments could be made about a few of the other provisions of the proposal, including the section authorizing PCA's and land banks to become involved in the financing for basic processing and marketing and the provisions to permit the Federal Credit Administration to charter corporations to perform certain services. These provisions bring a question to mind - would the PCA's finance hedging activities or speculation activities?

Mr. Chairman, I do re-emphasize that after our delegates examine these issues, we may support each of them. Our questions today should be interpreted as a desire for more specific information to help in the understanding of the need for the Farm Credit System to become involved in some of these activities. After our annual meetings in December and

January, we would welcome the opportunity to submit additional comments to you in this regard.

Now, Mr. Chairman, if we might make a few comments regarding conservation programs.

Farmers know their future and their son's future depends on their personal stewardship of the soil. They know it is disastrous to have it wash away. However, conservation is often expensive. It can present severe economic burdens to certain landowners which make it impractical to practice the conservation needed to save soil. We welcome your assistance and the assistance of the general public to preserve the productivity of farmland for future generations.

The Illinois Farm Bureau favors conservation cost-sharing programs as provided by the Agricultural Stabilization and Conservation Service. Without such cost-sharing assistance, landowners would be unable to justify the short-term economic burdens of many useful conservation structures and techniques. We believe the current limits on the amount of cost-sharing assistance per farm should be increased or eliminated in a time of uncontrolled inflation to permit landowners to apply more enduring erosion practices and structures.

We are concerned about the current manpower level in the Soil Conservation Service. Many new programs are being directed at the agricultural sector which are requiring more technical assistance. Often the workload far exceeds the current SCS manpower. We cannot expect to make reasonable progress in the application of enduring conservation practices and structures without the necessary number of competent technical personnel.

In recent hearings held on the Illinois Environmental Protection Agency's 208 Water Quality Plan, farmers spoke out loudly and clearly for locally controlled, voluntary conservation programs. It is our sincere

hope that conservation programs will be kept on a voluntary basis. Mandatory soil conservation programs cannot be applied to an industry like agriculture with such diverse economic and physical conditions. Given the proper incentives, we believe farmers can voluntarily solve their soil erosion problems.

We have several ideas which are not currently being utilized in conservation programs that we feel merit study and consideration. As an example, a revolving fund could be set up for farmers to provide low-interest loans for non-cost-shared conservation practices. Such low-interest loans could be used to provide an incentive for the purchase and use of conservation implements such as chisel plows, disk chisels or zero-till planters.

We believe some incentive must be given for conservation tillage. It represents one of the most cost-effective means of conserving soil on many soil types. We need more research on the detailed effects and advantages of the various types of conservation tillage.

We need more research on how to estimate accurately the amount of soil eroding from particular slopes. Few facts are known about how soil erosion from farmland affects water quality. Too little is known about the economics of soil conservation. Evidence we have seen is very confusing as to whether certain conservation practices save energy. We strongly urge the U.S.D.A. and the land grant college system to launch a vigorous program to find answers to these types of questions.

Certain tax incentives could be designed for landowners who conserve their soil. Landowners could earn a certain property tax or income tax deduction if they installed structures or adopted practices to meet certain soil loss standards. Capital gains taxes could be reduced to those who improve the value of their farms by installing conservation structures or implementing conservation practices.

When governmental cost-sharing funds are applied to enduring erosion control practices, these practices become a permanent part of the farm and the owners must be held responsible for maintaining those conservation practices. We cannot afford to spend tax dollars on conservation one year and have complete disregard for those improvements the next year.

We do not believe participation in a certain conservation activity should be required as a condition of eligibility for federal farm programs. The diversity of weather, economic and soil conditions make it unreasonable to assume that a certain set of conservation practices will be uniformly appropriate at any one time. Most farm programs were designed to help farmers through times of low prices and large supplies. We do not feel that farmers should be penalized for not applying conservation practices when the reasons for such non-application may be totally beyond their control.

We thank you for the opportunity to share our concerns and ideas on these two subject.

Harold B. Steele, President
Illinois Farm Bureau
1701 Towanda Avenue
Bloomington, IL 61701

Mr. JONES of Tennessee. One question. What is the date of the annual meeting of the Farm Bureau Federation?

Mr. STEELE. The date of the annual meeting is January 7-10, 1980.

Mr. JONES of Tennessee. So that would mean then that, probably by the 12th or 15th, the rules, the resolutions would be out as to whether or not you favor that nationally or not?

Mr. STEELE. Yes sir, Mr. Chairman. That would be very accurate.

Mr. MADIGAN. I am assuming, Mr. Steele, that from what you have said, we should interpret that as meaning that after that time, if we are to have further information in Washington, that you would be glad to testify then and there?

Mr. STEELE. That is correct, I would be.

Mr. MADIGAN. As I know you are aware, we are kind of overwhelmed with very good witnesses.

We have had 18 or 19 this morning, and we have 24 on the schedule for this afternoon. So, because of that, Mr. Steele, you get away without any hard questioning by Mr. Jones and myself.

But we will see you in Washington.

You are always a good witness, and we appreciate it.

Mr. JONES of Tennessee. Now, Mr. Dick Johnston, the president of the Missouri Farm Bureau.

STATEMENT OF C. R. (DICK) JOHNSTON, PRESIDENT, MISSOURI FARM BUREAU

Mr. JOHNSTON. Mr. Chairman, members of the subcommittee, my name is Dick Johnston, president of the Missouri Farm Bureau Federation.

For the record, the Missouri Farm Bureau Federation is a voluntary general farm organization, composed of over 73,000 participating farmer members in 108 counties in Missouri.

I appreciate the opportunity to appear before you today and to present the views of our members on the proposed amendment to the Farm Credit Act.

The proposed package of amendments is both lengthy and complex. Several may prove controversial and all will require careful study and thorough debate.

We in farm bureau are attempting to provide all members an opportunity to study, discuss, and eventually to decide on the desirability of the proposed changes through our policy process.

The American Farm Bureau has provided the State farm bureaus with more complete information on the amendments for policy development discussion. We anticipate considerable debate on this topic at State farm bureau annual meetings and ultimately at the American Farm Bureau annual meeting in Phoenix on January 6-10.

It is our hope to have more explicit policy from our voting delegates relating to this legislation.

Preliminary discussions have surfaced several areas of concern with the proposed amendments.

One proposal would authorize the bank for cooperatives to become involved in export-import financing. This is a risky venture at best and one which should only be attempted if it is crucial to the export-import credit needs of U.S. farm cooperatives.

Two, another proposed amendment would lower from 80 percent to 60 percent the percentage of farmer-voters required in order for a cooperative to be eligible to borrow from the bank for cooperatives.

We would urge caution on any change which might tend to lessen farmer control of farmer cooperatives.

Three, the farm credit system amendments also propose to authorize loss sharing agreements between and among institutions in the Farm Credit System.

Such agreements may increase the likelihood of more risky loans, a possibility which concerns our members, especially in light of the export-import financing amendment discussed earlier.

Mr. Chairman, I list these points to help demonstrate the type of questions and concerns which we in the farm bureau hope to address in our 1980 policies.

We would reiterate the request made earlier by American Farm Bureau, that your committee delay any final action on this legislation until next year.

Our present Missouri Farm Bureau policies do address one area relative to the farm credit system which has been the cause of growing concern to our members. Namely, the active efforts by some leaders in the Farm Credit Administration to establish the farm credit system as a major supplier of farm insurance needs.

Our members adopted the following policy for 1979 concerning this problem :

We oppose the selling of all types of insurance by government and quasi-government lending agencies. This is not the purpose of original intent in founding such credit institutions.

This package of amendments offered by the Farm Credit Administration provides Congress with an opportunity to clarify the intent of the 1971 Farm Credit Act which authorized the farm credit system to offer financially related services.

This reference to financially related services in the 1971 act has lead to a full-blown property insurance program currently being pursued through so-called pilot projects in three farm credit districts including the St. Louis district which serves Missouri.

We have several concerns with the farm credit system's involvement in the insurance business.

Congress established the farm credit system to provide adequate and sound credit to farmers and farm cooperatives.

The 1971 Farm Credit Act reestablished this goal as the farm credit system's major objective.

Although, in most cases, they have done an outstanding job of supplying credit for farmers and our cooperatives, credit problems in agriculture are far from being resolved.

Rather than starting an ambitious program of financially related services, we would strongly recommend that the farm credit system get back to the original objective for which it was created by Congress : supplying adequate and sound financing to farmers.

We not only question whether this insurance program follows the intent of Congress, but our experience in Missouri would indicate that the farm credit system is not even following one of its own criterion for establishing financially related services; namely, that there is a need for this service.

We can find absolutely no need for additional insurance carriers in any of the counties in Missouri where production credit associations are currently offering their insurance program.

Our own affiliate, Farm Bureau Town and Country Insurance, is active in all Missouri counties and numerous other companies writing farm accounts can be found throughout the State, including MFA, Cameron Mutual, Farmers Insurance Group, and numerous locally owned county mutual companies.

When we have questioned PCA officials about this apparent conflict, their response has been that, although there are plenty of insurance companies and agents available, most are doing a poor job of serving farm insurance business.

Informal surveys have been conducted by PCA's that purportedly show that over 80 percent of the farmers contacted are currently underinsured. This subjective judgment on quality of service has become the justification for need for service in the offering of their insurance programs.

I emphasize the term subjective judgment, because underinsured in the eyes of a loan officer may not be underinsured in the eyes of the insured or professional insurance agent.

As an example, one of our farm bureau members has his residence insured with our Town and Country Insurance Co. at \$13,000.

He received a phone call from one of his local PCA's soliciting his insurance business. They subsequently insured that same property for \$26,000.

Our local agent reports that an absolute maximum value for that property would be \$16,000. At \$26,000, it is grossly overinsured.

My point is simply this: For the PCA's to determine need for service on the basis of their interpretation of what constitutes proper insurance coverage is ludicrous.

The fact is, rural Missouri has an abundance of competent, professional insurance agents, capable of handling the insurance needs of Missouri's farms.

Another rationale or selling point often used to support the current insurance activities of PCA's is the argument that a profitable insurance business will mean lower interest rates for farm credit system borrowers.

We assume, therefore, that the opposite is also true: an unprofitable insurance business means higher interest rates for borrowers.

There is no guarantee of profitability in any business venture, and certainly not in the case of insurance.

Many companies writing farm lines, including our own, have battled high loss ratios for many years. Unless a company has strict underwriting guidelines in both the field and in the home office, the potential for losses is magnified several times.

We find no evidence of careful underwriting by the company currently under contract in Missouri to handle the farm credit system's property insurance.

In the case cited earlier, the \$26,000 insurance coverage was extended on the property, sight unseen.

If the farm credit system continues their expansion into non-credit areas, we suspect loss sharing would be needed not only between the different institutions, but also between the different enterprises.

Despite the seriousness of our concerns already expressed here today, by far the most serious problem with this program is the opinion expressed by our members that insurance needs and credit needs do not mix.

Whenever any credit institution begins offering insurance coverage the potential for coercion is inescapable.

Current Federal banking codes attempt to protect borrowers from undue pressure to purchase insurance from banks or other lending institutions. However, the economic leverage which a PCA holds over a typical farmer-borrower defies any attempts to regulate against intentional or unintentional pressure associated with loan approvals or renewals.

In our conversations with PCA officials, they have indicated that they are not pushing their insurance program.

The impression is left that the program is just there and people use it if they so desire. Our experience in Missouri, however, clearly shows that the PCA's are very capable of developing a hard push for their insurance program.

This includes telephone solicitation, letters to borrowers, and even radio ads.

We have attached exhibit 1, an example of a letter which was received by a PCA borrower concerning his insurance needs.

This letter is an example of a PCA applying hard-sell tactics for their insurance program. The letter leaves little doubt in a borrower's mind that the PCA wants, and perhaps even expects, his insurance business.

I hope that when your committee takes action on the Farm Credit Act amendments, you will favorably consider an amendment which will prohibit the farm credit system from handling any insurance other than credit life.

Thank you.

[The attachment referred to above follows:]

CARUTHERSVILLE PRODUCTION CREDIT ASSOCIATION,
Caruthersville, Mo., September 21, 1978.

DEAR JOHNNY AND RONNIE: We know you are constantly concerned about "Farming for Profit". We well realize the cost of todays farming operation with low farm prices and the high cost of everything you buy. This is just one of the reasons your PCA Association entered into the insurance business. We know you are vitally concerned about adequate protection for you and your family. Our utmost concern is seeing you get the most and best coverages for the dollars you spend. In most instances, we are able to give you lower insurance cost or much better coverages than you have had in the past. It will not cost you a penny for us to look over your present coverages and quote you our rates.

Even though you may not be interested in our insurance program, we need the information below for your loan file.

Yours very truly,

ROBERT S. GARRETT,
Vice President.

Present Agent or Company-----
Renewal dates—Home-----
Machinery-----
Farm Liability-----
I would like a PCA representative look over my present coverages. Yes-----
No-----

(Signed)

Mr. JONES of Tennessee. Thank you very much, Mr. Johnston.

And I assume, likewise, you will be available after the annual meeting if we need you in Washington for further testimony?

Mr. JOHNSTON. Yes, sir. Be happy to.

Mr. JONES of Tennessee. We appreciate your being here today.

Our next witness is Mr. Leonard Fouts of West Point, Ind.

Mr. Fouts, we are delighted that you are here to present your statement.

STATEMENT OF LEONARD R. FOUTS, TIPPECANOE COUNTY, IND.

Mr. FOUTS. Mr. Chairman, members of the subcommittee, I am Leonard R. Fouts from Tippecanoe County, Ind.

My son, Bill, and I have a family-type farm on which we grow around 800 acres of row crops consisting of corn, beans, and wheat. We also keep around 80 head of beef cows, and feed out their increase.

In addition to my farming operation, I am active in many farm organizations, but more specifically, I am now in my 20th year of service on the board of directors of the Lafayette Production Credit Association.

It is through this service that I have had the privilege of serving the past year on the PCA national committee, representing the Fourth Farm Credit District.

I come from a farm-credit-oriented family.

My uncle served for many years as secretary-treasurer of the Tippecanoe-Warren NFLA, and he also served on the Fourth Farm Credit District Board.

My present farm was used as the Federal land bank "A" benchmark farm in real estate appraisal.

My purpose in being here today is to endorse the farm credit package that is now in Congress, for I feel it has many provisions that can strengthen the Farm Credit System to better serve its membership.

However, being interested in short-term credit, I'm concerned that the package does not contain any provision for longer term loan for PCA.

Around 1962 the 7-year loan was approved, but since then there has been no change in the length of loan the PCA's can make. However, there has been many changes in the many factors that affect the net profit a farmer or rancher retains today.

It is this narrow margin of profit that I feel makes a longer term loan a must. We are all aware that capital is paid for from net profit.

The increased cost in tractors, combines, and other larger machinery items take their share of this net margin, but are not what I am speaking of, since their life is no longer than before.

The items I am referring to are ones that have a probable life span of 10 to 15 years, such as livestock confinement buildings, manure lagoons, fences, silos, and any others that can be fitted into this type of loan.

I also feel that if the member can cash-flow this type of loan on a 10- to 15-year basis, he would rather have it with a short-term lender because he probably would not need a real estate mortgage.

I realize that this length of loan can be served by the Federal land bank, of which I am a member, but Federal land bank can only make it via a first mortgage.

I also realize that there may be a bit of overlapping of service with this length of loan, but I feel that the choice can only be healthy for the member.

History shows that farm credit legislation comes along but once every 8 to 10 years. I am certain that the type of service that the PCA member has enjoyed in the past will be seriously curtailed in relief of this situation is not contained in the farm credit package of 1979.

Thank you.

Mr. JONES of Tennessee. Thank you very much, Mr. Fouts for that statement. We do appreciate this.

Because of the shortage of time, we better forgo any questions.

Mr. Clark, we are glad that you are here; please proceed.

STATEMENT OF WAYNE O. CLARK, FARMER, CATLIN, ILL.

Mr. CLARK. Thank you, Mr. Chairman.

My name is Wayne Clark from Catlin, Ill.

I have farmed all my life in the Catlin area. I am farming the land that my father farmed, and my grandfather before him.

My father was one of the charter members of our local production credit association. The agricultural cooperative movement has always played an important part in our farming operation.

In my years of farming, I have seen agriculture as one of the most prosperous vocations a man could be in. I have also seen the times we wondered if there was any possible way we would stay in business for another year.

During those bad times, the only way I was able to continue in farming was due to the fact that I had the backing and support of the farm credit system. I assure you, no one knows better than I what the words "dependable farm credit" really mean.

In addition to credit, I have been a strong supporter and user of the other credit-related services offered by my local PCA. I am making special reference to the insurance program they have available for my use.

When I say "available for my use," I mean exactly that. I have never in any way been forced to use the insurance services available in my association.

I use them because they are good, their price is fair, and they fit my needs.

A bill was introduced in the Illinois House in Springfield this last spring to prevent PCA's from selling insurance. I attended this house hearing before the subcommittee in support of the PCA's selling insurance.

I understand a similar bill was presented in the State of Missouri. This evidently has been a controversial issue.

Fortunately, both bills died in committee. Most of the testimony in favor of the bill was from insurance agents who do not want competition. They indicated that members were coerced into buying insurance. Nothing could be further from the truth.

I have not always carried my crop yield insurance with my local PCA, but I like the competition, because then I have a choice. I even like the competition between cooperatives.

Not only do I have a choice, but competition creates a better quality product and a better service to me as a user.

Let's say I pick up \$50,000 of borrowed money from my local PCA to buy a combine. I want instant credit life insurance before I go out the door of that office. My local PCA provides me with that coverage and service.

Our association offers insurance services to its members because we farmers request them. I have talked with my farmer neighbors, and they have also indicated they carry insurance with PCA because of the cost, the service, and they are dealing with people who understand their needs.

If we don't like doing business with PCA, we know we can go elsewhere.

I fail to see anything wrong with a group of farmers organizing their own business.

PCA's are member-owned lending cooperatives. We lend our own money and money we have borrowed from the investing public.

We are not asking for Government assistance, as some large corporations are doing now.

We are not asking for Government handouts, subsidies, or charities. We are only asking for a bill to be passed in Congress, as presented.

This will allow us to run a fair, competitive, and profitable business that will serve the needs of the member owners.

I thank you very much.

Mr. JONES of Tennessee. Thank you very much, Mr. Clark.

We appreciate your statement. I am sure you will get consideration.

Mr. Shattuck, if you will, introduce the person with you.

Mr. SHATTUCK. Sure.

Chairman Jones, Congressman Madigan, my name is Jay Shattuck, and I am director of government affairs for the Independent Insurance Agents of Illinois.

I have with me today to testify, Gordon Sowers, who is the president of the Independent Farm Insurance Agents of Illinois and a member of the Independent Insurance Agent of Illinois.

Mr. JONES of Tennessee. Mr. Sowers will present the statement; fine.

STATEMENT OF GORDON SOWERS, PRESIDENT, INDEPENDENT FARM AGENTS OF ILLINOIS, MEMBER OF THE INDEPENDENT INSURANCE AGENTS OF ILLINOIS; ACCOMPANIED BY JAY SHATTUCK, INDEPENDENT INSURANCE AGENTS OF ILLINOIS

Mr. SOWERS. Mr. Chairman, Congressman Madigan, as Mr. Shattuck pointed out, I am Gordon Sowers from Watseka, about 65 miles north of Champaign.

I am an independent insurance agent with Iroquois Insurance Agency of Watseka, and I live on a farm.

I appear before you today as president of the Independent Farm Agents of Illinois, which, as Jay mentioned, is a member or affiliate

of the Independent Insurance Agents of Illinois, and which has approximately 300 farm agent members.

IIAI is a State association which represents approximately 8,000 property and casualty agents and their employees.

A substantial number of these member agents are small businessmen who provide personal, professional insurance counseling and service to Illinois farmers.

In our own particular agency, we are in a small town and we are predominately farm insurance agents, servicing farmers and agribusiness-related people.

The Farm Credit Act was established primarily to serve the credit needs of the farmers. And I say this from firsthand because I think my father got his first PCA loan either in 1939 or 1940.

The independent agents fully support the purpose for which the farm credit system was created, and our local production credit associations, which are invaluable assets to the many Illinois communities they now serve, especially in our area in Watseka.

However, in your consideration of the Farm Credit Act amendments, designed to improve the operations of the farm credit system, it is appropriate to take a close look at one aspect of the program entirely unrelated to credit, where congressional intent as embodied in the Farm Credit Act of 1971, has not been carried out; and where, if current activities continue, the long-term interest of this Nation's farmers will not be served, and unaffiliated small businessmen will continue to be faced with unfair competition from Government-backed farm credit lending institutions.

And at this point, I would like to add that we have seen other areas where we feel that this is only the tip of the iceberg, that when a lender and an insurance agent are one and the same, it has an effect on the borrower.

Because of unfair competitive advantages the farm credit institution would have over unaffiliated small businesses, and because of the fear of these institutions would be diverted from their primary function of extending agricultural credit, Congress in a conference report adopted language which clearly expressed the intent that insurance coverage should be strictly limited and only offered when similar service is not being provided adequately in terms of cost, quality, and availability by unaffiliated businesses in the community.¹

The Farm Credit Administration, following Congress intent, created regulations for farm credit institutions that wish to offer financially related services.

One of these is:

(1) Need for the service based on persuasive evidence that membership need for and interest in the proposed service is sufficient to insure that a quality service can be provided at reasonable cost and that similar service is not being pro-

¹ Conference Report No. 92-679, 92d Cong., 1st sess. 50, 54, 55 (1971). (Emphasis added): " * * the sale of liability insurance, and any insurance on passenger automobiles, is not 'necessary and incident' to the functions of the lending institutions; but that they should be able to sell such insurance as may be necessary to protect the loan. Thus, credit life insurance could be sold in an amount appropriate to insure repayment of the loan, and insurance against loss of any collateral securing a loan could be sold for the full value of such collateral."

vided adequately, based on cost, quality, availability, by others in the community.³

And then we list some evidence that we would like for you to look at.

Production credit association and Federal land banks have ignored this regulation, and, furthermore, have read the collateral restriction out of the conference report language by defining collateral to be any asset where loan repayment reasonably may be considered to be jeopardized if such assets are not protected by insurance.⁴

In fact, farm credit institutions have gone so far as to solicit insurance from nonmembers. And I have included an exhibit in my report that I would like to have you read.

We believe wholesale entry of PCA's and Federal land banks into the insurance agency business would be against the best interest of this Nation's farmers.

The promise of growing income from expanded insurance activities will divert associations from their primary function of extending farm credit, thereby potentially jeopardizing the solvency of particular cooperatives and frustrating the goals to build a stronger farm credit system.

And a couple of other witnesses, Mr. Steele and Mr. Johnston, have posed a couple of thoughts that I haven't even thought about regarding the profitability and solvency of that type of a business.

The danger is very real because the cooperatives are already marketing these insurance programs as moneymakers for the cooperative, not out of a demonstrated need for the service.

And we have exhibit B to point some of this out.

As a general rule, farmers will not receive the same professional counseling and service when purchasing insurance from a PCA or Federal land bank employee who sells insurance only as a sideline to his primary responsibility.

We feel, in addition to that, that the lines that are being sold are far from the total insurance needs of the farmer.

In contrast, the independent agent's primary business is selling insurance and he depends upon a satisfied customer to stay in business.

Whenever insurance is sold in connection with the lending of money, there is the danger that the borrower's freedom to choose the insurance of his choice will be compromised whether through the settle suggestions of the loan officer or his own perception that he will stand a better chance of procuring the loan from the institution if he buys his insurance there.

³ (Section 618.8010) *The Federal Farm Credit Board Policy Statement on Financially Related Services, formulated and approved by the Board in February 1971, contains the same requirement:* "... The primary consideration in offering any service should be the benefit it provides members and the lenders rather than the remuneration which may accrue to the banks or associations. Consistent with the policy of the law, these services should be undertaken only when there is evidence of lack of availability as to convenience, quality, or cost and there is sufficient interest on an association or district-wide basis to assure that the service will be at least self-sustaining. ..."

"... When request for approval of a service is made, the request shall be supported by an in-depth study determining the feasibility of the service and the contribution it provides in meeting the objective of the System. The submission should document the nature of the program, those to whom it will be offered, and the basis on which the service is judged to meet the tests set forth in Section 8010 of the Farm Credit Administration Regulations."

"Farm Credit Administration approval shall be based on the determination that legal authority to offer the service exists, an administrative determination that the proposed service can be authorized, and that the submission establishes the need for the service to be offered."

⁴ FCA letter of approval and instruction to pilot district banks regarding collateral insurance.

And somebody just mentioned today that it is ironic that some of the building and loan institutions in Chicago sell as high as 60 percent of their customers insurance, where downstate, in some of the smaller communities, it might be as low as 10 percent.

And I think that points out what I am trying to say.

The fact that PCA's and Federal land banks are cooperatives and the borrower is part owner is irrelevant. What is relevant is the particular borrower's situation, how badly he needs credit, and the risk that the cooperative will deny the loan.

During times of tight credit like the last few weeks, the tendency of tying is more prevalent. Not only is tying effect contrary to the best interest of the farmer who buys his insurance from the cooperative to facilitate getting his loan rather than because it is the best product; it is unfair to the unaffiliated agent.

In many respects, the farm credit institutions possess substantial competitive advantages over unaffiliated agents.

Consider the following advantages PCA's and Federal land banks have:

No. 1: The one I just mentioned, the likelihood that the purchase of insurance will be tied to the lending of money.

No. 2: The ability to dangle the carrot of using commission income to reduce further interest rates.

Unaffiliated agents are prohibited by laws against rebates from offering any similar incentive or discount.

No. 3: Access to confidential policy information submitted in connection with loans. I am referring to dates of expiration, premium amounts, coverages and coverage amounts. This is an incredible advantage unavailable to the unaffiliated agent which enables the cooperative to quote selectively on which it knows it can beat and that it feels they would be strong in.

The use of expiration information submitted in connection with a loan to cooperatives to pursue insurance activities should be strictly prohibited by law as being a confidential relationship.

While Federal land banks and PCA's have repaid their indebtedness to the Government, they still have important advantages that they derive in being able to call upon the resources of the other institutions in the farm credit system. And we have heard items mentioned today in that regard.

They also receive preferential treatment from the Federal Reserve Board.

In addition, the Federal land banks are exempt from Federal income tax and the interest on the notes that both the Federal land banks and the PCA's issue to raise money are exempt from State and local taxation, making them extremely attractive investments.

Thus, these institutions have a substantial capital at their disposal to finance their insurance activities that unaffiliated agencies do not have.

There is no way to neutralize competitive advantages that the production credit associations and the Federal land banks have over unaffiliated insurance agencies.

This is why the conferees in the 1971 act strictly limited the types of insurance that the institutions could sell, and limited such sales

to those communities where similar services were not being provided by unaffiliated businesses.

We ask that the Farm Credit Act at this time be amended to restrict the insurance activities of the farm credit institutions.

At the very least, we would hope that the following recommendations would be adopted:

No. 1: Before the Farm Credit Act can authorize the offering of insurance, the credit institution must make a finding, based on an evaluation of evidence contained in a factual record that similar service is not being provided adequately in terms of cost, quality, and availability in the communities served by the farm credit institution.

No. 2: Notice of such application to sell insurance to be published in at least two newspapers, having general circulation in the trade area in which that particular association does business.

Such notices would summarize the application of the association and would invite written comments on the availability of the particular lines of insurance that are the subject of the application in terms of cost, quality, and availability.

No. 3, Congress intent not to permit the sale of liability coverages and to limit the sale of property coverages to the collateral that is the formal security interest granted in connection with the secured loan be reflected.

Only in this way will the long-term interest of the farmers of this Nation be served and unfair competition with unaffiliated independent small businesses be avoided.

[The attachments to Mr. Sower's statement follow:]

**BLACKHAWK PRODUCTION CREDIT ASSOCIATION,
Rockelle, Ill., March 20, 1978.**

DEAR SIR: Blackhawk Production Credit Association is again offering Crop Hail Insurance Coverage for its members and farmers in Ogle County. Crop Hail coverage can be extended to non PCA borrowers as well as the Blackhawk PCA membership.

The following are the premiums for various crops and locations in Ogle County. All quotations are for 100 percent coverage.

Single corn and soybean rates of entire Ogle County

	<i>Insurance</i>
Soybean liability 30 percent or less of total policy-----	\$1.10/\$100
Soybean liability 30 percent to 50 percent of total policy-----	\$1.48/\$100

Corn only

	<i>Insurance</i>		<i>Insurance</i>
Flagg Township-----	0.93/\$100	Oregon -----	0.85/\$100
Dement Township-----	0.93/\$100	Nashua -----	0.85/\$100
White Rock Township-----	0.85/\$100	Pine Rock -----	0.93/\$100
Lynville Township-----	0.85/\$100	Lincoln -----	0.85/\$100
Scott Township-----	1.17/\$100	Mt. Morris-----	0.93/\$100
Monroe Township-----	0.85/\$100	Rockvale -----	0.85/\$100
Woosung:		Marian -----	0.85/\$100
(T 23 N. R 8 E.)-----	0.85/\$100	Maryland -----	0.85/\$100
(T 22 N. R 8 E.)-----	0.93/\$100	Leaf River-----	0.85/\$100
Grand Detour-----	0.78/\$100	Byron:	
Taylor -----	0.93/\$100	(25 No. 10 E.)-----	0.85/\$100
LaFayette -----	1.32/\$100	(25 N. 11 E.)-----	1.32/\$100
Buffalo -----	0.85/\$100	Forreston:	
Pine Creek-----	0.85/\$100	(25 N. 7 E.)-----	1.09/\$100
Brookville -----	1.02/\$100	(25 N. 8 E.)-----	0.85/\$100
Eagle Point-----	0.93/\$100		

Crops such as peas, canner beans, tomatoes, oats, etc. are also available at a low premium cost.

A Production Credit Association representative will be contacting you in the very near future concerning Crop Hail coverage.

If you have any questions, please call 562-8428.

Sincerely,

GENE HAGEMANN.
Branch Manager.

EXHIBIT B

[From the 1978 Annual Report of the Decatur, Ill., Production Credit Association]

CREDIT LIFE INSURANCE

The purpose of credit life insurance is to provide a cushion against financial hardship that often occurs when death comes unexpectedly. It is not a substitute for permanent insurance, but is valuable protection for today's farmer with high cost inputs and dependent on borrowed capital. Both the amount and cost of the insurance vary according to age. Credit life insurance is offered as an optional service and is available to both husbands and wives. The number of Decatur PCA members with credit life insurance in force rose to 619 in 1978. This is 69 percent of all members. A total of \$1,872,620 credit life premiums have been written since this service was introduced. Claims during that period amounted to \$1,211,500. Income produced to the association since inception is \$453,516.

CROP HAIL

Crop Hail insurance offers both hail and fire production. Coverage begins as soon as the crop is up and continues until the crop is no longer in danger of hail damage. Fire protection continues until harvested or December 15.

In 1978, Decatur PCA experienced excellent growth in the crop hail program with premiums written reaching \$246,593, an increase of 21 percent over 1977. 36 percent of all PCA members insured their crop with PCA. Decatur PCA has written a total of \$1,032,819 crop hail premiums since 1969. Claims paid during that period total \$956,510. This service has provided more than \$206,103 of income to the association.

CREDIT DISABILITY INSURANCE

Credit disability insurance will provide that payments be made on your loan for up to 36 months if you become disabled through an injury or have a serious illness. There is a waiting period of 30 days for disability due to accident and illness, however the insurance will go back to your first day of the accident and illness after this qualifying period has been met and pay for the number of days you remain ill or disabled. The maximum insurance you can purchase is based on loan size. Premiums are based upon age and the amount of benefit. This loss of time benefit will help in providing the peace of mind you need while recovering.

FEDERAL INTERMEDIATE CREDIT BANK BONDS

Members may purchase FICB bonds in \$5,000 multiples through PCA between the 20th and 25th of each month. These rates fluctuate. Rates will be quoted at the time of purchase. The most current rate was 10.8 percent. The principal can be redeemed at the end of the nine months along with the interest, or the principal can be reinvested at the new rate when the bond matures. There are no fees involved in this purchase when handled through PCA.

Mr. JONES of Tennessee. Thank you very much, Mr. Sowers and Mr. Shattuck.

I think that your statement is self-explanatory. I believe that I followed it well enough that I understand your position.

Do you have any comments, Ed?

Mr. MADIGAN. I would like to say, on a different subject, Mr. Sowers, that Mr. Jones and I are working very hard with your industry to try

to work out some language on the Federal crop insurance corporation bill, which isn't the subject of this hearing, but I thought you might want to know.

Mr. SOWERS. I am very interested in knowing.

Mr. MADIGAN. We are trying to get that resolved, and we hope it will meet with your approval.

Mr. SOWERS. We have several of our members here today, Congressman Madigan, and we are pleased to hear your response on this topic that you just mentioned.

Thank you, gentlemen.

Mr. JONES of Tennessee. Let me say, Mr. Sowers, that we do appreciate what has been done in that direction by you people. You have been very cooperative in recent days as far as the Federal crop insurance program is concerned.

Mr. SOWERS. Thank you very much.

Mr. JONES of Tennessee. Mr. Pratt, welcome, and you may proceed and introduce the guest that is with you.

Mr. PRATT. Mr. Chairman, on my right is Mr. George Benson, our legal counsel, and he has a very thorough knowledge of the Farm Credit Act of 1971.

We brought him along in case there was any questions that you need to ask. We felt he was more qualified than I.

Beyond him, is Mr. Clinton Hakes, president, Producers Livestock Corp.

Not only is he chief operating officer of that, but he is very knowledgeable in such operations.

Mr. JONES of Tennessee. Thank you, sir. We are delighted that you are here.

STATEMENT OF CHARLIE PRATT, NATIONAL LIVESTOCK PRODUCERS ASSOCIATION; ACCOMPANIED BY GEORGE BENSON, LEGAL COUNSEL, NATIONAL LIVESTOCK PRODUCERS ASSOCIATION; AND CLINTON HAKES, PRODUCERS LIVESTOCK CORP.

Mr. PRATT. Mr. Chairman, the National Livestock Producers Association is a federation of 13 regional livestock marketing cooperatives and 6 affiliated livestock credit corporations.

We are the country's largest cooperative livestock marketing association.

We have just completed our 58th year of services to the livestock industry.

The member regional livestock marketing associations and the credit affiliates serve nearly 250,000 farm and ranch livestock producers and feeder members.

We operate nearly 150 livestock markets and a number of finance offices located across the country.

Last year, our member marketing associations handled over 10 million head of livestock valued at \$2.2 billion.

In 1978, our affiliated credit corporations extended more than \$415 million in livestock loans to producers.

It is estimated that, for the year 1979, they will lend close to \$500 million.

Mr. JONES of Tennessee. Thank you very much.

The six livestock credit corporations which are affiliated with us are required by their articles of incorporation and bylaws to operate for the sole purpose of financing the ordinary crop operations of the members of the cooperatives which make up National Livestock Producers Association and the ordinary crop operations of other agricultural producers.

The bulk of their loans to agricultural producers are livestock related, for beef cattle, dairy cattle, swine, and sheep.

Our affiliated livestock credit corporations have a long history. Their present form of organization dates from the early 1930's.

They predate some of the important institutions of present farm credit system, including the banks for cooperatives, the production credit associations, and the Farm Credit Administration itself.

In our statement, on appendix B, within that short period of time, we will complete 50 years with the credit corporations. At the present time, we have an investment in those regional FICB's of in excess of \$11,500,000, relating how closely we are tied to the farm credit system.

Mr. Chairman, our organization does support the proposed Farm Credit Act Amendments of 1979 and believe that the farm credit system has, over the years, performed its purpose very well.

However, one aspect of the proposed Farm Credit Act Amendments of 1979 causes us real concern.

We are concerned that the language of the provision relating to the exemption from truth-in-lending laws will be construed not to extend to affiliated credit organizations, even though they perform a function and act in a manner closely related to the PCA's.

We believe this problem can be remedied by minor additions to these provisions.

These exemptions are covered in two new sections to the Farm Credit Act in the proposed Farm Credit Act Amendments of 1979.

Section 4.17 would exempt institutions of the farm credit system from State interest rate limitations.

Section 4.19 would exempt farm credit system institutions from their requirements of State truth-in-lending laws to the extent that they are inconsistent with the Federal Truth-in-Lending Act.

We are concerned that these exemptions will be narrowly construed to exclude the affiliated livestock credit corporations from their coverage even though the corporations are identical to PCA's in the role that they play in providing credit to producers and in their dependence upon the FICB's for loan funds.

Now, skipping through our statement, Mr. Chairman, we can go right to the section on page 6 and the underlined words we are proposing, and hope that you will seriously consider adding the following language.

And the language for section 4.17 on the interest rates are to include:

Similarly, interest rates on loans made by agricultural credit corporations organized in conjunction with cooperative associations for the purpose of financing the ordinary crop operations of the members of such associations or other producers and eligible to discount with the Federal intermediate credit banks

pursuant to section 2.3 of this act shall be exempt from any interest rate limitation imposed by any State constitution or statute or other laws which are hereby preempted for purposes of this act.

Then, as we drop down to the other addition to section 4.19, truth in lending, the inclusion to the proposed amendment, here again, adding this language to the proposal:

* * * And agricultural credit corporations organized in conjunction with cooperative associations for the purpose of financing the ordinary crop operation for the purpose of financing the ordinary crop operations of the members of such associations or other producers and eligible to discount with the Federal intermediate credit banks pursuant to section 2.3 of this act.

Mr. Chairman, this is a short, brief summary of our statement, but it is two or three points that we would urge you seriously to consider.

We certainly appreciate the opportunity of being here and we would be happy to try to answer any questions, should you have any.

Mr. JONES of Tennessee. Thank you, Mr. Pratt.

You did not go through the entire statement, so it will be made a part of the record.

[The prepared statement and attachments thereto of Mr. Pratt follow:]

NATIONAL LIVE STOCK PRODUCERS ASSOCIATION

307 LIVESTOCK EXCHANGE BUILDING

DENVER, COLORADO 80216

(703) 623-2006



November 10, 1979

SUBSIDIARIES & AFFILIATES

NATIONAL FEEDER AND
CORPORATION
NATIONAL PRODUCERS SERVICE
COMPANY

MARKETING AGENCIES

FOURTY COOPERATIVE LIVESTOCK
SALES ASSOCIATION

BABADOC MISSOURI

INTERSTATE PRODUCERS LIVESTOCK
ASSOCIATION PEORIA ILLINOIS

INDIANIAN LIVESTOCK EXCHANGE
MANCHESTER INDIANA

MISSISSIPPI LIVESTOCK PRODUCERS
ASSOCIATION JACKSON MISSISSIPPI

NATIONAL LIVESTOCK COMMISSION
ASSOCIATION OKLAHOMA CITY OKLAHOMA

PRODUCERS COMMISSION ASSOCIATION
SOUTH CITY KANSAS

PRODUCERS LIVESTOCK MARKETING
ASSOCIATION OKLAHOMA OKLAHOMA

PRODUCERS LIVESTOCK MARKETING
ASSOCIATION LOUISVILLE KENTUCKY

PRODUCERS LIVESTOCK MARKETING
ASSOCIATION NORTH SALT LAKE UTAH

PRODUCERS MARKETING ASSOCIATION INC
INDIANAPOLIS INDIANA

PRODUCERS & TEXAS LIVESTOCK
MARKETING ASSOCIATION KANSAS CITY MISSOURI

TENNESSEE LIVESTOCK PRODUCERS
INC COLUMBIA TENNESSEE

TEXAS LIVESTOCK MARKETING ASSOCIATION
FORT WORTH TEXAS

CREDIT CORPORATIONS

NATIONAL FINANCE CREDIT CORPORATION
FORT WORTH TEXAS

NATIONAL LIVESTOCK CREDIT CORPORATION
OKLAHOMA CITY OKLAHOMA

PRODUCERS LIVESTOCK CREDIT CORPORATION
CHICAGO ILLINOIS

PRODUCERS LIVESTOCK CREDIT CORPORATION
DENVER COLORADO

PRODUCERS LIVESTOCK CREDIT CORPORATION
SALT LAKE CITY UTAH

PRODUCERS LIVESTOCK CREDIT CORPORATION
SAN FRANCISCO CALIFORNIA

Honorable Ed Jones

Chairman

Subcommittee on Agricultural Credit

and Rural Electrification

House Agricultural Committee

1301 Longworth House Office Building

Washington, D.C. 20515

Honorable Herman E. Talmadge

Chairman

Senate Agricultural, Nutrition

and Forestry Committee

324 Russell Senate Office Building

Washington, D.C. 20510

Re: Farm Credit Act Amendments of 1979
H.R. 4782 and S. 1465

Gentlemen:

The National Live Stock Producers Association is a federation of thirteen regional livestock marketing cooperatives and six affiliated livestock credit corporations. (See Appendix A for listing for the member associations and affiliates.)

National Live Stock is the country's largest cooperative livestock marketing association. It has just completed its fifty-eighth year of services to the livestock industry. The member regional livestock marketing associations and the credit affiliates serve nearly 250,000 farm and ranch livestock producers and feeder members. We operate nearly 150 livestock markets and a number of finance offices located across the country. In 1978, our member marketing associations handled over 10.0 million head of livestock valued at \$2.2 billion. In 1978, our affiliated credit corporations extended more than \$415 million in livestock loans to producers. It is estimated that for the year 1979, they will lend close to \$500 million.

The six livestock credit corporations which are affiliated with us are required by their Articles of Incorporation and Bylaws to operate for the sole purpose of financing the ordinary crop operations of the members of the cooperatives which make up National Live Stock Producers Association and the ordinary crop operations of other agricultural producers. The bulk of their loans to agricultural producers are livestock related, for beef cattle, dairy cattle, swine and sheep.

Our affiliated livestock credit corporations have a long history. Their present form of organization dates from the early 1930's. They predate some of the important institutions of the present Farm Credit System including the banks for cooperatives, the production credit associations ("PCA's"), and the Farm Credit Administration itself.

Several related and important federal statutes passed in the late 1920's provided the impetus and basis for our credit corporations. In 1922, the Capper Volstead Cooperative Marketing Act opened the way for organization of marketing cooperatives by exempting associations of producers for marketing purposes from the antitrust laws. In 1929 Congress enacted the Agricultural Marketing Act of 1929. The purpose of this act was "to promote the effective merchandising of agricultural commodities in interstate and foreign commerce and to place agriculture on a basis of economic equality with other industries. The Act authorized the establishment of the Federal Farm Board, the predecessor of the Farm Credit Administration, and established a revolving fund of \$100,000,000 to be loaned to cooperatives and to farmers to finance crop production through the Federal Farm Board.

This Board immediately initiated steps to channel these funds into the agricultural community. In the livestock industry steps were taken to organize a national livestock marketing association which would be affiliated with regional livestock marketing associations which operated as cooperatives meeting the requirements of the Capper Volstead Act. At a meeting in Chicago on October 24, 1929, a plan of organization for a national livestock marketing organization was proposed and adopted. This plan called for the formation of credit corporations. The initial capital for the enterprise was to be provided by a \$3 million loan from the revolving fund administered by the Federal Farm Board.

On May 6, 1930, the Federal Farm Board called a meeting attended by sixteen livestock cooperatives which voted to accept the government's plan. National Live Stock was formed on May 10, 1930 with the sixteen regional livestock marketing associations as members. The credit affiliates were formed shortly thereafter. As is apparent from this brief discussion, the original impetus for organizing our credit affiliates came from the federal government, and the form of our organization was developed by the Federal Farm Board within a framework of legislation designed to support our activities.

From the first, our credit affiliates were closely integrated into and dependent upon the Farm Credit System. The Federal Intermediate Credit Banks (FICB's) served then, as they still do today, as the major source of loan funds for our affiliated livestock credit corporations. Over the years, the Farm Credit System has evolved considerably and expanded greatly. The Farm Credit Act of 1933 established the framework for the system that still exists today. It transferred and consolidated jurisdiction for farm credit to the Farm Credit Administration. It created the banks for cooperatives. Finally, it authorized creation of PCAs which, like our affiliated livestock credit corporations, are organized to make short-term production loans directly to producers. The PCAs were, in many important respects, modeled after our affiliates and, like them, looked to the FICB's as their major source of loan funds. Executive Order No. 6084 (March 27, 1933) reorganizing the agricultural credit agencies of the United States transferred the general jurisdiction of the Federal Farm Board related to our affiliates to the Farm Credit Administration.

The present Farm Credit Act authorizes FICB's to make loans and extend financial assistance to production credit associations. In addition, FICB's are authorized to discount notes of certain other financial institutions ("OFI's") where the proceeds of such notes were advanced or used in the first instance for any agricultural purpose. Our credit affiliates qualify as OFI's, and since they lend funds only to producers for agricultural purposes, they are able to discount notes with the FICB's within the limits set by the Farm Credit Act.

Most OFI's do not have the history of dependence on and close affiliation with the Farm Credit System that our credit corporations have. The purpose of the FICB's is to assure the availability of credit for producers and they do so, in part by extending the discount privilege to financial institutions not devoted solely to making agricultural loans. The extent of our credit affiliates' involvement with the FICB's is graphically shown by Exhibit B which shows their investment in the district FICB's with which they deal. In the FICB's with which they deal, they are either the primary or one of the primary OFI's. Approximately 95% of the loans of our credit affiliates are discounted with the FICB's. Because of their relationship with the FICB's, our affiliates are subject to periodic audits and reviews at least annually by the FICB's and to close supervision by them.

Because of our affiliates' dependence upon the Farm Credit System we are keenly interested in those sections of the Farm Credit Act which affect OFI's either directly or indirectly. In addition, because of our history and the role that we play in extending credit to producers, we believe that we are an important part of the Farm Credit System. The Farm Credit Act provisions affect our ability to make credit available to the producers that we serve.

We support the proposed Farm Credit Act Amendments of 1979 and believe that the Farm Credit System has over the years performed its purpose well. However, one aspect of the proposed Farm Credit Act Amendments of 1979 causes us concern. We are concerned that the language of the provisions relating to exemption from State usury and truth in lending laws will be construed not to extend to our affiliated credit corporations even though they perform a function and act in a manner closely similar to a PCA. We believe this problem can be remedied by minor additions to these provisions.

These exemptions are covered in two new sections to the Farm Credit Act in the proposed Farm Credit Act Amendments of 1979. Section 417 would exempt institutions of the Farm Credit System from State interest rate limitations. Section 419 would exempt Farm Credit System institutions from the requirements of State truth in lending law to the extent that they are inconsistent with the Federal Truth in Lending Act. We are concerned that these exemptions will be narrowly construed to exclude the affiliated livestock credit corporations from their coverage even though the corporations are identical to PCAs in the role that they play in providing credit to producers and in their dependence upon the FICB's for loan funds.

Earlier in this letter, we briefly described the history of our affiliated livestock credit corporations. They were originally formed at the urging and in accordance with a plan formulated by the predecessor of the Farm Credit Administration. They were organized in a manner that integrated them into and made them dependent upon the Farm Credit System as their source of loan funds. Because of this history, we believe that we are in many respects as much a part of the Farm Credit System as the PCA's and that the exemption that is being extended to them should be extended to us as well.

Certain other features of the manner of organization of our affiliates should be noted. The credit corporations were organized in a manner that assures that they were and would remain producer controlled. Their object is to provide producers with credit on the best terms possible. Any net income that they have is used to expand their capital base to permit them to increase the volume of loans they extend to members.

In these important respects, our affiliated livestock credit corporations are closely similar to the Farm Credit System banks. The reasons for exempting Farm Credit Banks from State usury and truth in lending laws apply equally to our affiliates. We believe that extending the exemption to us is vital to our continued ability to meet the credit needs of livestock producers who depend upon us for their credit needs.

There is no sound reason for exempting PCA's from State usury and truth in lending laws and not exempting our affiliated credit corporations. Since we extend credit to the same types of livestock producers on similar terms, this could result in favoring some institutions in the Farm Credit System at the expense of others. The following additions to proposed Section 4.17 and 4.19 would serve to make certain that equal treatment is extended to our affiliates (additions underscored):

"Sec. 4.17 Interest Rates. - In order that lending can continue on a self-sustaining basis, interest rates on loans made by institutions of the Farm Credit System shall be determined with the approval of the Farm Credit Administration as provided in this Act, notwithstanding any interest rate limitation imposed by any State constitution or statute or other law(s) which are hereby preempted for purposes of this Act. Similarly, interest rates on loans made by agricultural credit corporations organized in conjunction with cooperative associations for the purpose of financing the ordinary crop operations of the members of such associations or other producers and eligible to discount with the Federal Intermediate Credit Banks pursuant to Section 2.3 of this Act shall be exempt from any interest rate limitation imposed by any State constitution or statute or other law(s) which are hereby preempted for purposes of this Act."

* * *

"Section 4.19. Truth in Lending. - The provisions of any State statute or any other law or regulation which impose, with regard to a credit transaction, any duty or requirement that had been imposed by the Truth in Lending Act (83 Stat. 146) prior to any amendment thereto shall not be applicable to credit transactions of Farm Credit System institutions and agricultural credit corporations organized in conjunction with cooperative associations for the purpose of financing the ordinary crop operations of the members of such associations or other producers and eligible to discount with the Federal Intermediate Credit Banks pursuant to Section 2.3 of this Act.

We appreciate the opportunity to comment upon the proposed amendments to the Farm Credit Act. If this letter raises any questions which you would like to discuss further or if we can be of any further assistance to you, please do not hesitate to give me a call.

Yours very truly,

NATIONAL LIVE STOCK PRODUCERS
ASSOCIATION

By: Charles A. Pratt

Charles A. Pratt, its Executive Vice President and General Manager

Appendix A

National Live Stock Producers Association

307 Livestock Exchange Building Denver, Colorado

Member Livestock Marketing CooperativesEquity Cooperative Livestock Sales Association, Route 3, Box 48, Baraboo,
Wisconsin 53913Interstate Producers Livestock Association, 1705 West Luthy Drive, Peoria,
Illinois 61614

Michigan Live Stock Exchange, P. O. Box 35, Manchester, Michigan 48158

Mississippi Livestock Producers Association, P.O. Box 4797, Fondren Station,
Jackson, Mississippi 39216National Livestock Commission Association, 125 Livestock Exchange Bldg.,
Oklahoma City, Oklahoma 73108Producers Commission Association, Livestock Exchange Building, Sioux City,
Iowa 51107Producers Livestock Marketing Association, Livestock Exchange Bldg.,
Omaha, Nebraska 68107Producers Livestock Marketing Association, Bourbon Stock Yards, Louisville,
Kentucky 40206Producers Livestock Marketing Association, Union Stock Yards, North Salt Lake,
Utah 84054Producers Marketing Association, Inc., Livestock Exchange Bldg., Indianapolis,
Indiana 46221Producers & Texas Livestock Marketing Association, 328 Livestock Exchange Bldg.,
Kansas City, Missouri 64102

Texas Livestock Marketing Association, P.O. Box 4558, Fort Worth, Texas 76106

Tennessee Livestock Producers, Inc., Box 313, Columbia, Tennessee 38401

Affiliated Credit CorporationsProducers Livestock Credit Corporation, 307 Livestock Exchange Building,
Denver, Colorado 80216National Finance Credit Corporation of Texas, P.O. Box 4558, Fort Worth,
Texas 76106National Live Stock Credit Corporation, 125 Livestock Exchange Building,
Oklahoma City, Oklahoma 73108Producers Live Stock Credit Corporation, 2700 Keslinger Road, Geneva,
Illinois 60134Producers Livestock Loan Company, 501 Deseret Building, Salt Lake City,
Utah 84111Tri-State Livestock Credit Corporation, 351 California Street, San Francisco,
California 94104

Appendix B

SIX CREDIT CORPORATION'S
EQUITY IN FICB'S
12/31/73

I. FICB - SACRAMENTO

A.) SALT LAKE LOAN

1.) Participation Certificates	\$1,737,110.00
2.) Allocated Legal Reserves	<u>631,430.00</u>
SUB TOTAL	\$2,368,540.00

B.) TRI-STATE CREDIT

1.) Participation Certificates	\$1,823,385.00
2.) Allocated Legal Reserves	<u>660,515.00</u>
SUB TOTAL	\$2,488,900.00

II. FICB - WICHITA

A.) OKLAHOMA CREDIT

1.) Participation Certificates and Legal Reserves	\$1,195,242.00
SUB TOTAL	<u>\$1,195,242.00</u>

III. FICB - HOUSTON

A.) TEXAS CREDIT

1.) Participation Certificates	\$1,562,525.00
2.) Allocated Legal Reserves	<u>622,331.37</u>
SUB TOTAL	\$2,184,856.37

IV. FICB - OMAHA

A.) DENVER CREDIT

1.) Participation Certificates	\$1,861,825.00
2.) Allocated Legal Reserves	<u>415,925.94</u>
SUB TOTAL	\$2,277,750.94

V. FICB - ST. LOUIS

A.) CHICAGO CREDIT

1.) Participation Certificates	\$ 789,910.00
2.) Allocated Legal Reserves	<u>299,048.00</u>
SUB TOTAL	\$1,088,958.00

GRAND TOTAL \$11,604,247.31

Mr. JONES of Tennessee. One question. In case we need you or the counsel to come to Washington for testimony later, would you be available?

Mr. PRATT. Yes sir, we would be more than happy and appreciate the opportunity to attend.

Mr. JONES of Tennessee. I will guarantee you we will be taking a good look at your recommendation.

Mr. PRATT. Thank you, sir. It is a real privilege to be here today.

Mr. JONES of Tennessee. We appreciate your coming.

Mr. Berg, I see you have someone with you, so you may also introduce your guest.

And I believe he has a statement also?

Mr. FRANZ. That's right.

Mr. JONES of Tennessee. Mr. Franz; is that right?

Mr. FRANZ. Yes.

Mr. JONES of Tennessee. We are delighted that you are both here, and you may proceed.

STATEMENT OF BYRON BERG, BOARD CHAIRMAN, PRODUCTION CREDIT ASSOCIATION, DODGEVILLE, WIS.

Mr. BERG. Mr. Chairman and members of the subcommittee, I am Byron Berg, Blanchardville, Wis., which is located in the southwest part of the State.

I own and operate, with my son, a beef cow and feeder fattening farm. I am appearing here in a dual role. First, to express my personal views and, second, as board chairman of the Production Credit Association of Dodgeville.

This two-county association served approximately 850 members this past year.

I appreciate the opportunity to present my views and those of the Production Credit Association of Dodgeville concerning the Farm Credit Act amendments of 1979.

As a matter of information, the farm credit system has repaid all of the Federal seed money and operates as farmer cooperatives. No tax money is involved.

The Farm Credit Act amendments of 1979 are important to the farm credit system to make changes in its lending practices and related services to keep up with the changing need and expectations of its member-users.

The Farm Credit Act of 1971 made considerable legislative changes and it is now 8 years since that act was passed.

Consider for a minute the amount of change that has taken place since then. Accordingly, this is the underlying need for passage of this updated legislation.

My first remarks are addressed to the related services; namely, the collateral insurance.

Presently our association is offering, on an optional basis, to its member-users three credit related insurance services. I will also give you the percent usage by our membership.

Credit life is used by 52 percent of our membership.

Only 16 percent of our membership is using credit disability.

Forty-five percent of our farmer-members use the hail insurance offered by the association.

Remembering that this is an optional credit related item and only available to our member users, I cannot see why the insurance industry wants to limit the insurance services offered to our members.

This is not Government financed or subsidized. Insurance is written through private insurance companies.

In the fall of 1978, our seventh farm credit district conducted a farm property collateral insurance survey and the member-users were asked this question :

Do you believe it is desirable or undesirable for the PCA's to offer farm property insurance to their members on an optional basis?

Those surveyed answered "desirable" at the rate of 92.6 percent.

If our member-users of this business desire a credit-related service, why, then, would this expectation be legislated out so as to stifle competition?

This survey's results are available for your review, if you so desire.

When mentioning competition, I have another example as it relates to PCA's of Wisconsin and what part they played in the reducing of cost of hail insurance to its member-users.

In 1968, when Wisconsin PCA's started to sell hail insurance, industry figures showed \$202,000 of premiums were produced, with an average rate charged the farmer of \$2.28, whereas, 10 years later, in 1978, \$1,531,000 of premiums were produced, at an average rate of \$1.44 per \$100.

At our local association, our initial rates charged our member-users was \$2.20 for corn, whereas, this past year found a rate of \$1.10 per \$100 of insurance coverage.

Where, may I ask, have you come in contact with prices being cut 50 percent from 10 years ago?

This cannot take place by stifling competition, as some in the insurance industry will have you legislate.

Other benefits due me as a farmer-borrower-user are: insurance dividends coming back to the co-op to help pay the operating expenses.

I am a member of this co-op, so I share, likewise.

As far as income taxes, our PCA does pay income taxes, and where our office is located, they are one of the highest property tax payers also. Wisconsin is a high property tax paying State.

Additionally, the PCA representative takes an annual inventory. Who, then, can do a more knowledgeable and professional job?

The PCA representatives in our area take required schooling and have to pass a test administered by our State insurance commissioner just like any other insurance agent. Insurance in Wisconsin is highly regulated.

In summary, I strongly feel that the farm credit system should retain its present authority to offer credit related insurance services.

Agriculture uses large amounts of capital and risks are high. One way of reducing risk is to insure against losses which could jeopardize loan repayments.

I believe that PCA's ability to offer credit related insurance services will encourage those already serving the farm insurance market to

provide better service to the farmers. I do not feel competition should be controlled with legislation.

The secondary of remarks is addressed to marketing/processing and/or export financing.

The area I am from is a high concentration of dairy units. The proposed legislation does not have the impact here since our dairy industry has done a pretty good job of taking the farmers' product, processing and marketing it.

This legislation, as it applies to our agriculture, involves more of the specialty farm operations. Our area does not have much of this type of farming/agriculture, so I cannot speak with full authority.

I am sure that other parts of the U.S. agriculture by geographical area could provide more input.

I have a couple of situations that apply to our production credit association which I do wish to share with you.

We have some potato producers in our area served by our credit co-op. One of their marketing alternatives is to wash, grade, bag, and store their potato crop.

This requires a considerable amount of capital for processing line with the largest expenditure for a building to store potatoes which is temperature and humidity controlled especially for our Wisconsin winters.

Another example is an egg producer who has near \$1 million of sales desiring to market his own eggs to supermarkets in the area.

Here, again, a fairly sizable amount of capital is required for the packaging, transportation, and accounts receivable part of such a business.

In the situations I have just mentioned, an opportunity is opened up for a son or daughter who wants to stay close to agriculture to become involved.

Additional jobs are created for rural America.

So often, these processing/marketing business ventures are incorporated or set up in a partnership for tax or legal considerations. Accordingly, it is very difficult and cumbersome for PCA to finance such a venture and sometimes it ends up in an unsatisfactory arrangement for PCA and member-borrower.

As I stated earlier, our association has less experience in this type of financing than some other PCA's. They could give you more information or illustrations on this matter.

Our main concern is the related insurances. And I support the act as amended.

Mr. Chairman, I want to thank you and the subcommittee for allowing me to have some input into this hearing on the proposed Farm Credit Act Amendment of 1979.

I would be pleased to respond to any questions, and I do have some comments on the conservation aspects.

Mr. Jones of Tennessee. You may proceed, Mr. Berg. Thank you very much.

Mr. BERG. Very recently, a precedent was set in the issuance of guaranteed credit on the part of the Federal Government. Of course, that involved the Chrysler Corp.

That corporation's attempt to secure Government-backed loans was that its unbearable financial situation was caused, in part, by Federal legislation and subsequent regulations.

A similar argument might be presented on behalf of the Nation's farmers and they, too, are forced to make investments stimulated by Federal environmental regulation.

For instance, in order to assure higher quality waters, the Nation's farmers may or will be required to install best management practices. These are, in most cases, traditional conservation practices.

Some of them require capital investment of anywhere from a couple of thousand dollars to upward of \$100,000.

You are also aware that there is cost sharing available through the ASC up to \$3,500.

This is, in many cases, of great significance.

However, in the installation and necessary manure handling systems, for example, \$3,500 ACP contribution is a mere pittance.

The installation of conservation systems are capital investments where cost benefits are not usually returned over the short term.

They do, however, yield annual dividends which accrue over a period of 10 to 20 years.

Cost should be amortized, therefore, over a commensurate period of time.

I hope that somewhere along the line that we can also get involved in the green ticket approach to get the better land users a better price for their crops, especially in the commodity programs.

Lenders need to realize and appreciate this, and set loans accordingly.

Since society is one of the long-range benefactors, Farm Credit Administration should look with favor upon loan applications made for the purpose of installing conservation systems.

Banks and associations that comprise the farm credit system should be encouraged to look with favor upon these kinds of loans.

Thank you very much.

Mr. JONES of Tennessee. Thank you, Mr. Berg.

We do appreciate both statements that you have made and will look at them very carefully.

Mr. Franz, you may proceed.

STATEMENT OF JEROME FRANZ, FARMER, COLUMBIA COUNTY, WIS.

Mr. FRANZ. I am Jermome Franz, grain farmer with some beef cows, from Columbia County in Wisconsin, which is just north of Madison.

I am chairman of the board of directors of the Production Credit Association of Madison, Wis.

As a farmer and borrower from the farm credit system, I am here to endorse the proposed farm credit amending legislation in its present state.

I believe there are some important provisions in this bill that will be helpful to farmers and the agricultural economy.

I fully endorse the export financing for cooperatives which I feel is extremely important in marketing our farm commodities, as well as

the other provisions. Since some questions and our position has been raised regarding the farm credit system offering farmer-borrower financially related services, I will confine my remarks to this particular area.

We recognize the Federal Government may be responsible for regulations of this farm credit system, but we must remember it does not own or subsidize the system. Apparently we have not been doing our public relations in this area, because some witnesses here are operating under the illusion that we are a quasi-government organization, which is simply not true.

The system has stood on its merits in service to farmers. If farmers have been allowed to band together to serve their credit needs, why should they be restricted in also providing financially related services on an optional basis?

It is important to stress that farmers have a need for financially related services, and that farmers should have the option of who provides that financially related service.

If the fact that it is optional is ever questioned, we have never had a complaint or any evidence offered that any loan decision was ever tied to taking a financially related service. If this accusation has any substance, then our heaviest or poor quality loans should be subscribing to our financially related services.

If this is checked, you will find that they have less than average participation in our financially related services.

Since the question of coercion has been pointed at farm credit in offering insurance, what do we call it when insurance agents subjectively imply rates on certain insurance, such as vehicle or truck insurance, may be contingent on the amount of other insurance the agent writes for you.

Let's examine the track record of what has happened in Wisconsin in the crop hail business. Well, actually, Byron covered that pretty well, so I will just skip over that.

The real benefit has been the substantial reduction of premiums due to spreading the risk.

Wisconsin's most predominant insured crop, field corn, has had hail premium reductions of 35 percent during the past decade.

Our PCA, covering four counties, has nearly \$30 million of hail insurance protection for farmer-members this past season. We are very much aware that after PCA proved there was a substantial market, the hail insurance written by other insurance companies also grew dramatically.

From where I stand, it appears the insurance industry is alive and well. We just heard that 8,000 agents are making a living serving this market of farmers in Illinois alone.

Why should independent insurance agents and farm organizations which have affiliated insurance companies be trying to restrict or eliminate competition through the legislative process? This certainly is in conflict with a free enterprise system.

I would like to ask the farmer organizations if their response on this legislation is representing farmers or representing their insurance companies.

Let me make it clear that we, PCA, do not own an insurance company, nor will we in the future. We are writing for existing independent insurance companies.

I have city cousins paying dues to farm organizations as required to obtain their insurance.

I am not down here asking Congress to restrict these insurance companies from marketing in urban areas.

We do not believe farm credit is unfair competition. Do we want legislation that restricts service to farmers?

Do we want legislation that is self-serving to special interest groups?

Do we want legislation that shackles the free enterprise system?

We urge this subcommittee to move this legislation in its present form.

I would like to thank the subcommittee for this opportunity to testify at this hearing.

Mr. JONES of Tennessee. Because you did skip around, we will place your prepared statement in the record.

[The prepared statement of Mr. Franz follows:]

PREPARED STATEMENT OF JEROME FRANZ, FARMER, COLUMBIA COUNTY, WIS.

Mr. Chairman and members of the Committee, I am Jerome Franz, grain farmer with some beef cows, from Columbia County in Wisconsin which is just north of Madison. I am Chairman of the Board of Directors of the Production Credit Association of Madison, Wisconsin.

As a farmer and borrower from the Farm Credit System, I am here to endorse the proposed farm credit amending legislation in its present state. I believe there are some important provisions in this bill that will be helpful to farmers and the agriculture economy. I fully endorse the export financing for cooperatives which I feel is extremely important in marketing our farm commodities as well as the other provisions. Since some question and opposition has been raised regarding the Farm Credit System offering farmer-member financially related services, I will confine my remarks to this particular area.

It is unfortunate this legislative field hearing is right in the midst of fall harvest. I'm confident and know many farmers would be endorsing this legislation by letter or attendance if they were more aware that this proposed amending legislation directly affects their business.

We recognize the federal government may be responsible for regulations of this Farm Credit System but we must remember it does not own or subsidize the System. The System has stood on its own merits in service to farmers. If Farmers have been allowed to band together to serve their credit needs, why should they be restricted in also providing financially related services on an optional basis.

It is important to stress that farmers have a need for financially related services and that farmers should have the option of who provides that financially related service. If the fact that it is optional is ever questioned, we have never had a complaint or any evidence offered that any loan decision was ever tied to taking a financially related service. If this accusation has any substance, then our heaviest or poor quality loans should be subscribing to our financially related services. If this is checked, you will find they have less than average participation in our financially related services. Since the question of coercion has been pointed at Farm Credit in offering insurance, what do we call it when insurance agents subjectively imply rates on certain insurance, such as vehicle or truck insurance, may be contingent on the amount of other insurance the agent writes for you.

Let's examine the track record of what has happened in Wisconsin in the crop hail business. In the years prior to PCA offering this service, very little crop hail insurance in comparison was sold. From earlier decades, crop hail insurance did not have a good reputation due to poor adjusting. Federal Crop Insurance was only utilized by the poor operators to cover their mistakes. What has happened since PCA has offered this service? PCA led the way in

protection to farmers many, many fold. PCA made sure farmers received proper adjustments on claims from insurance companies that PCA represented and that farmers recognized the need for protection of their real benefit has been the substantial reduction of premiums do to spreading investment. The the risk. Wisconsin's most predominant insured crop, field corn, has had hail premium reductions of 45% during the past decade. Our PCA, covering four counties, has nearly 30 million of hail insurance protection for farmer-members this past season. We are very much aware that after PCA proved there was a substantial market, the hail insurance written by other insurance companies also grew dramatically.

From where I stand, it appears the insurance industry is alive and well. Why should independent insurance agents and farm organizations which have affiliated insurance companies be trying to restrict or eliminate competition through the legislative process. This certainly is in conflict with a free enterprise system. I would like to ask the farmer organizations if their response on this legislation is representing farmers or representing their insurance companies? Let me make it clear that we do not own an insurance company nor will be in the future. We are writing for existing independent insurance companies. I have city cousins paying dues to farm organizations as required to obtain their insurance. I'm not down here asking Congress to restrict these insurance companies from marketing in urban areas.

We do not believe Farm Credit is unfair competition. Do we want legislation that restricts service to farmers? Do we want legislation that is self serving to special interest groups? Do we want legislation that shackles the free enterprise system? We urge this Committee to move this legislation in its present form.

I would like to thank the Committee for this opportunity to testify at this hearing.

Mr. JONES of Tennessee. Thank you, Mr. Franz. We appreciate your statement and we will take due notice of it as we proceed to develop the legislation.

I yield to Mr. Madigan now for the purposes of introduction.

Mr. MADIGAN. Mr. Chairman, if I am following the schedule correctly, at this point we are moving to a discussion of conservation, as opposed to a discussion of farm credit, where I think we have exhausted the witness list.

The first witness under the heading of conservation is a resident of my district, Mr. Gilbert Fricke, an official with the Illinois Department of Agriculture.

By way of introduction, Mr. Fricke is, in addition to being an official of the Department of Agriculture, also a successful grain farmer, a past county farm bureau president, a past director of the State farm bureau organization, an officer of the Pork Producers Association, and it looks like he is anxious to testify.

Mr. JONES of Tennessee. Mr. Fricke, it is good to have you. I enjoyed meeting you today.

STATEMENT OF GILBERT FRICKE, ILLINOIS DEPARTMENT OF AGRICULTURE

Mr. FRICKE. Congressman Madigan, I appreciate the opportunity to present testimony this morning on behalf of the Illinois Department of Agriculture. I am Gilbert Fricke and serve as the superintendent of the Division of Marketing and Agricultural Services. One of the bureaus of the Department of Agriculture which is under my supervision is the Bureau of Soil and Water Conservation.

Conservation programs and incentives have been established as the priority of our department. As you are aware, the department

administers the soil and water conservation districts program in Illinois. A 1977 amendment to the Districts' Act, requires the department to set guidelines for sedimentation and erosion control. This is in line with the department's role as management agency for the agricultural sector of the section 208 water quality program of the Clean Water Act. A great need exists in our State for the fiscal capability to carry out these and the other Federal and State responsibilities which our agency has been given relative to conservation. Our best conservation estimate for the cost of applying conservation measures to Illinois farmland is \$6.3 billion. I'm sure you are aware of the problems and needs which merit such an estimate.

The United States and State of Illinois governments have worked closely to accomplish our State and national conservation goals. We deeply appreciate this cooperation exhibited by our Congress and agencies of the U.S. Department of Agriculture. It is imperative if we are to succeed in our effort. I cannot overemphasize the importance of strong USDA programs which provide the ability to increase the advancement toward accomplishing our conservation goals. We have the State and national legislative directive to do so; we must also have the financial resource capability.

A recent cooperative effort of USDA and the State of Illinois is the rural revitalization planning program. This program, funded through a Farmers Home Administration grant, has provided a rural needs assessment and a rural development strategy for Illinois. The Natural Resources and Environment Task Force of this program consisted of leaders representing all levels of government, public interest groups, and private organizations. This task force centered its recommendations on the preservation of farmland. A key recommendation focused on the need for completion of the soil survey mapping in Illinois in order to do this. Soil surveys are of immediate concern to Illinois for many other reasons as well. Federal surface mining and water quality regulations are only two such needs. One agency of State government, the Illinois Environmental Protection Agency, has entered into agreement with the Soil Conservation Service to provide \$60,000 during this fiscal year for the purpose of accelerating soil survey progress. The Department of Agriculture is proposing a funding by State revenues to amount to 25 percent of the cost of the remaining soil surveys, which is much needed to complete the mapping by 1990, as is hoped. A bill which would achieve that result has been submitted to the Illinois General Assembly. Again, I would emphasize the importance of a continued and increasing Federal support of this program.

Our conservation needs must be met if we are to insure a future for our Nation which will maintain our present level of agricultural production. This is a very serious concern to Illinois, as we are the Nation's leading producer and exporter of agricultural products. Yet, we lose approximately 100,000 acres of farmland each year to other uses. Since the end of World War II we have lost the equivalent of eight medium-sized counties in Illinois. Obviously, this trend cannot continue without threatening the food supplies of our State, Nation, and world. I appreciate this chance to appear before you today and the continuing support of our Nation's legislative body for the vital conservation programs of agriculture.

Mr. JONES of Tennessee. Thank you very much, Mr. Fricke. We do appreciate your interest and your dedication to the program. Mr. Bowman, we are glad to have you. You may proceed.

STATEMENT OF WILBUR BOWMAN, PRESIDENT, ASSOCIATION OF ILLINOIS SOIL AND WATER CONSERVATION DISTRICTS

Mr. BOWMAN. My name is Wilbur Bowman. I am a farmer and electric contractor in Ogle County, Ill., and my wife and I operate a gift shop and lunchroom in an old stone house on our farm that is about 135 years old. So I am involved in both the finance end and the conservation end.

But I am speaking today as president of the Association of Illinois Soil and Water Conservation Districts, which is an organization made up of the 98 individual Soil and Water Conservation Districts in the State of Illinois, which cover all 102 counties with the exception of some urban and cemetery and riverbed areas, and so on.

We obviously are deeply concerned about several aspects of the soil and water conservation effort of today.

Agriculture in Illinois and all the United States has changed drastically over the years. In fact, there has probably been as much change in the last 5 to 10 years as occurred in the previous 20 to 30 years. Changes are very obvious in the mechanization aspect, for example, in tractors today compared with those of 1970.

The huge four-wheel-drive behemoths of today were practically unheard of then.

In the meantime, few implements have come along. Perhaps one of the first so-called conservation tillage implements was the chisel plow, which is not a very commonplace implement on Illinois farms.

Even more recently now, there have come into being an ever increasing list of implements designed to help reduce soil erosion and, at the same time, per acre cost on the input side for the farmer.

Farm credit needs have changed considerably. One machine now costs more than my entire line of machinery cost me when I started farming in 1959.

But we have heard considerable about farm credit and the needs and benefits of that in the last several hours.

Crop rotations have changed. Where we used to see hay and meadow to feed the livestock, we now see row after row of corn and soybeans, and a huge grain drying and handling setup, and perhaps no livestock at all.

This has all resulted in increased soil loss and an increased demand for technical assistance from our soil and water conservation districts, beyond which we simply cannot furnish.

There are over 8 million acres of land in Illinois that have an erosion rate exceeding acceptable levels. Most of this is called prime land, the very best in the Nation.

The impact of this erosion is reduced productivity, reduced export potential, increased food cost, and decreased water quality from sedimentation's standpoint.

All this change calls for comparative change in conservation approach.

We heard very recently that there will be no set-aside program in 1980, and perhaps not at all in the foreseeable future. This, in my judgment, is a change in the wrong direction because all those marginal acres formerly kept in the set-aside will now, more than likely, go into corn and soybean production, where the erosion rate becomes greatly excessive to any established limits or tolerable limits.

Soil and water conservation programs have also changed over the years, and we are still making progress toward our goal of having all agricultural land adequately treated.

But we need more change, and we need it faster.

A new approach has been proposed by the National Association of Conservation Districts, an organization with which our Illinois association works very closely as a part of it.

This idea has been called a green ticket approach, and, in somewhat oversimplified terminology, it is a means of providing landowners with an incentive of such a nature that it would encourage the application of good conservation practices.

It is our feeling that land users who voluntarily apply conservation systems to their land should not be economically penalized for their efforts but, in fact, given significant economic incentives to apply these practices to the land where they have jurisdiction.

This idea is new. It needs a lot more thought, but it has so many possibilities in terms of being an incentive to encourage the application of good, well-planned, best management practices and management systems that we think it has a chance of being a rather tremendous tool for conservation.

Recently, the Secretary of Agriculture has proposed regulations of the U.S. Treasury Department which would allow land users to deduct both Federal and State cost share payments directly from their gross income for purposes of Federal and State income tax.

If approved, this would be a big step in the right direction.

Illinois' 98 soil and water conservation districts, as well as the 3,000 other soil and water conservation districts across the Nation, need additional technical assistance. Data recently prepared for our association show that it would take approximately 8,000 man-years of technical assistance to land users in Illinois to reduce all soil loss to an acceptable level.

Obviously, we could not use all this manpower in 1 year or even in several years, but it does show the need for significant increases in technical assistance to districts, and this at a time when presidential budgets and legislative action tend to reduce the manpower available rather than increase it.

The workload for districts is accelerating rapidly. They will soon be implementing a soil erosion and settlement control program recently passed by the Illinois Legislature.

They have been selected by the Illinois Environmental Protection Agency as the management agents to administer the soil erosion portion of the Illinois 208 water quality management plan.

At our September board meeting, our association took action that placed the acceleration of the land treatment program from all soil and water conservation districts at the very highest priority level.

We desperately need additional technical assistance to meet our goals and provide for the welfare of this Nation.

That welfare includes energy conservation, for soil and water conservation practices are energy savers.

Districts in Illinois are directed and run by approximately 500 non-paid landowners and land occupiers.

I believe that Soil Conservation Service technical assistance should at least be doubled to help meet the increasing responsibilities placed on us for the care of our soil and water resources.

I realize that there are many other areas in the broad spectrum of conservation that all of us would say need attention, but this perhaps highlights a couple that we, in our organization, consider to be of prime importance.

We thank you for your time to present our thoughts to you.

Mr. MADIGAN. Mr. Bowman, it is possible that, after the conclusion of all of these witnesses testifying, that we will have a panel and a question and answer period.

That may also be impossible because the chairman has to catch an airplane at 4:30.

But, if the witnesses have concluded at that time, we will have that sort of a participation so that, if it is possible for you to stay around, we would appreciate it very much.

Mr. BOWMAN. I would be happy to.

Mr. MADIGAN. Thank you.

We appreciate your coming and taking the time to come.

Mr. Hillard Morris is the next witness.

STATEMENT OF HILLARD MORRIS, DIRECTOR OF THE NATIONAL ASSOCIATION OF CONSERVATION DISTRICTS

Mr. MORRIS. We are real happy that you have brought Congressman Jones into our great State of Illinois, and while we don't brag about our football team, we do say something about our corn and soybean production once in a while.

Mr. Chairman, while I am listed here as representing the National Association of Conservation Districts, of which I am a director, I will be speaking today as a farmer.

I am sure that Mr. Bauer, our president, Mr. Neil Sampson, our executive vice president in Washington, D.C., will be taking care of the national organization for me.

I am Hillard Morris, a farmer from Mason, Ill. We own 758 acres in Effingham and Fayette Counties, consisting of corn, soybeans, wheat, hay, pasture, and timberland.

We also have 50 Hereford cows and produce feeder calves on our rolling land.

For the past 27 years I have also had the opportunity to serve as a district director on the Effingham County Soil and Water Conservation District Board.

It has been my privilege to work for the conservation and wise use of our Nation's and States' greatest resource, our soil and water, at the local, State, and national level.

It is with this background that I welcome the opportunity to come before you today.

As we look back, we find several disturbing factors.

No. 1, excess soil loss through erosion of our cropland.

No. 2, agricultural lands being converted each year, which is about 100,000 acres in Illinois, to other uses, with no thought toward future needs of the Nation and the world for food and fiber.

No. 3, pollution of our rivers, streams, and lakes from sediment, carrying along chemicals and fertilizers.

No. 4, inflation, which erodes the landowners' and tenants' income, forcing them to misuse the land in order to pay taxes, operating expenses, and have some left over to support the family.

No. 5, high land prices and death taxes which forces the young farmer out of business and forces each generation to rebuy the family farm.

And No. 6, and this may be one of the most important, which affect most of the above: the lack of a national agricultural policy which makes agriculture and the soil and water resources a high priority item in national policy.

Food and fiber is man's No. 1 need, and as we look to the future, it becomes even more important.

This is why we need to start protecting the soil and water resources that produce it as we never have before.

Over the years, we have gained technology, developed the plans, and now it is time to undertake a strong national commitment to get conservation measures on the land to protect the soil and water from excess erosion and pollution.

Just as the Arabs deplete their resources when they export their oil, we have been depleting our great soil resources when we export our corn, wheat, soybeans, and cotton. The only difference is we could prevent our erosion losses and keep our croplands producing for generations to come.

I realize much needs to be done if we are going to reverse the trend of these past decades. A strong national effort must be made toward the following:

No. 1, education. We need to make everyone aware how important the soil and water resource is to their lifestyle, and why we need to protect it, if we are to feed their grandchildren and use it to buy and make the gas and oil they want to burn.

No. 2, a new national emphasis on protecting agricultural lands from conversion to other uses and losses through excess erosion.

No. 3, agricultural and conservation budgets to support strong locally controlled soil and water conservation programs.

The past years have shown that Soil and Water Conservation Districts, Soil Conservation Service, County Agricultural Stabilization and Conservation Service, and their local committees can get best management systems on the land when adequate funds are provided for cost share to the land owner.

One thing that is not in my testimony is that I believe that all governmental agencies supporting the National Agricultural policy—we can't have a cheap food policy at the expense of the farmer and the rancher and also the soil and water resources of the Nation.

No. 4, USDA programs all headed toward the same goal.

Too many times in the past the conservation farmer has been penalized with farm programs and allotments.

We need to reward the land owner who is producing under a good conservation plan. Tax incentives on conservation measures, lower interest rates on crop and farm loans, annual payments to cover taxes and maintenance on certain set-aside acres for critical areas, filter strips, and turn areas, and so forth are just a few.

No. 5, the establishment of a national resource conservation fund from which the above programs would be financed.

This fund could be created by funneling export fees on agricultural products exported, Federal inheritance taxes collected, a tax on ethanol, which is produced from our renewable resources, grazing fees, and recreation use fees from our public lands, et cetera.

Effort should be made for parts of these funds to be made on a matching fund basis to the States.

In closing, I would like to add that agriculture made our Nation what it is today. A strong agricultural economy means a strong national economy.

We need a strong national commitment toward making sure we will have the family farms and the soil and water resources to produce the food and fiber that future generations will need to survive.

I thank you, and that completes my statement.

Mr. MADIGAN. Thank you, Mr. Morris.

I might mention to you that, while Mr. Lawrence McCloy is coming up, that the Senate Finance Committee has put an amendment on President Carter's windfall profits tax bill that would repeal the carry forward basis in inheritance taxes that was enacted in 1976, which, as you know, is a very controversial and expensive thing.

So I thought that if you didn't know that, perhaps you and the others would like to know that that is in the windfall profits tax legislation.

Mr. MORRIS. I appreciate to know that, because that was very important to us.

Mr. MADIGAN. It is nice to have you with us.

Mr. MORRIS. Thank you, sir.

Mr. MADIGAN. Mr. McCloy, you may proceed.

STATEMENT OF LAWRENCE McCLOY, FARMER, MASON, ILL.

Mr. McCLOY. Mr. Chairman and members of the subcommittee, my name is Lawrence McCloy. I am a farmer living in Effingham County, which is in south central Illinois.

I am proud of the accomplishments of ACP. With proper funding and cooperation, many of the problems concerning clean air and clean water would not exist today.

Yes, as a child, I can remember dust in the air in our home on the dinner plates, and mother saying it was Kansas dust.

There were many ugly gullies, poor timber stands, bare hillsides, cropland too poor to grow a crop in the summer or cover for the winter.

ACP, through the efficient administration of ASCS county committeemen and county office personnel, has corrected many of these problems. But, from the lack of funds, many good conservation practices have had to be put off.

Checking with our Effingham County ASCS office, I was told in 1980, 70 practices were approved with a funding of \$112,536.

One hundred and thirty more were signed up, but could not be approved from lack of funds.

In 1979, 200 practices were signed up and 66 were approved. Again, the funding ran short.

Only \$35,000 was allotted, when traditionally \$60,000 to \$100,000 is used on a limited list of approved practices.

Funding is a problem. The ASCS office is there. Trained personnel are there, and farmers come asking. But shortage of funds keeps much conservation from being done.

Some practices have been discontinued for one reason or another. For instance, application of limestone to cropland with the requirement of winter cover crop to follow.

It was said to be a production practice and was no longer needed, which is wrong. We do need production. Both farmers and consumers alike, and in generations ahead, need it.

I have checked with local soil testing laboratories, and their requests for soil testing are down since the application of limestone to cropland was discontinued.

Also, figures bear out limestone sales are not keeping pace with what crops are depleting.

Many farmers no longer seed clover in their wheat, but instead double crop soybeans leaving more land with no winter cover, no place for wildlife to survive, and exposed for wind and water erosion through the winter and spring.

I can recall our county average corn yield of 38 bushels, wheat 14, soybeans 15. Today they are nearly tripled.

I'm sure soil testing and the application of limestone to cropland helped bring this increased production. For this we should all be thankful.

As a local radio farm show puts it, "If you eat, you too are involved in agriculture."

Thank you, Mr. Chairman and members of the subcommittee, for allowing my thoughts.

We also want to thank you for your past efforts in keeping ACP alive and as active as it is.

By working together, this long proven effective program can be strengthened. Again, thank you.

Mr. MADIGAN. Thank you, Mr. McCloy.

Our next witness will be Mr. Henry Quandt from Mason, Ill. I understand Mr. Quandt is not here, so we will proceed to Mr. Harold Parett of Mohamet, Ill.

STATEMENT OF HAROLD PARETT, FARMER, MOHAMET, ILL.

Mr. PARETT. My name is Harold Parett, and I am a farmer living in the house where I was born, a family farm since 1891.

I have been affiliated with ASCS work for 30 years, being a loan inspector, bin site attendant, scale attendant, township committeeman, and now as vice chairman of the Champaign County ASCS Committee.

I want to speak briefly about the benefits of ACP for Champaign County farmers.

So far, the program is entered into voluntarily, so an incentive has to be a major factor for participation.

Most farmers would not have participated in this conservation work if it had not been for the cost-sharing funds. This incentive is especially valuable for absentee landlords who do not see the daily needs for conservation as many of us do.

Farmers learn conservation practices from other farmers, through field demonstrations, and the college experiment stations.

[The following material was submitted for the record:]

Moneys used for ACP in Champaign County are the following amounts for the following years:

1972	-----	\$ 54,600. 48
1973	-----	87, 835. 07
1974	-----	25, 579. 79
1975	-----	54, 065. 00
1976	-----	79, 993. 00
1977	-----	89, 566. 00
1978	-----	44, 482. 00
1979	-----	41, 755. 00
Total	-----	368, 885. 29

In 1978 the following practices were carried out :

1978 ACP annual:		
Original allocation.....		\$65, 000
Decreased allocation.....		-15, 528
Total.....		50, 472
Request:		
58 farms requested cost-share.....		84, 613
30 farms approved.....		50, 472
21 farms canceled.....		34, 120

PRACTICES APPROVED

Practices	Number of farms	Units (feet)	Acres served	Cost-share
Terraces.....	22	61, 930	594	\$38, 253
Waterways ¹	4	172, 000	162	4, 249
Contouring.....	2		92	460
Windbreaks.....	5		29	585
Critical area seeding.....	1	214	5	856
Forest tree plantations.....	1		1	69
Total earnings.....				44, 462

¹ 4 practices transferred to 1979: 2 canceled; 2 to be paid when work is completed (waterways).

² Square feet.

The following is a brief testimony of a Champaign County farmer, Owen Binder, who has used parallel terraces and tiling, contouring, and chiseling plowing:

"The benefits from my conservation program are now realistic. No longer is there farming equipment stuck in wet soil. Instead of having wet, sour soil, I have high-producing, tillable soil. Corn yields have risen from 80 bushels per acre to 135 and some highs of 150 bushels per acre. Soybean yields have reached highs of 53 bushels per acre. I also know that, with a decent growing season, I have more income because I have less farming expense tilling good soil as compared to poor, undrained soil. The value of my land has more than doubled (leaving out inflated land prices). With a little repair work now and then on terraces, my soil will be here on the farm and not in some river or lake miles away.

"I would be quick to say that the time is now for anyone with erosion problems. Tomorrow—next year—later—or never, you say. What are you going to leave your children and grandchildren—a farm with the topsoil all gone, nothing but clay, rocks, and gullies? After all, we are just using our soil while we are here. It will be passed on some day, so why not leave it better than when we obtained it. Mine was a challenge, a goal, and a reward."

A farm manager, Steve Mosier, Champaign County Bank & Trust Co., who uses ACP on farms under his management states:

"I wish to submit written testimony about the value of the ACP cost-sharing program that now exists. I am a farm manager with Champaign County Bank & Trust Co. in Urbana, Ill., and manage 6,000 acres in Champaign and adjoining counties. I am also actively engaged in farming east of Urbana, Ill., and over the past 5 years have made considerable improvements to the land that I own and operate with the aid of the Soil Conservation Service and the ACP program. On lands that I either farm or manage we have constructed several thousand feet of farm over terraces and parallel terrace outlet drainage systems. Without the assistance of the Commodity Credit Corporation, none of this work would have been economically possible.

"We have done work on some 16 farms in the last 5 years and have made several acres of land productive that were previously subject to severe erosion problems which could not be handled with intensive farming. Since the improvement work has been done the soils are now intensively farmed with similar cultural practices that are allowable on flat land, and the erosion level has been reduced to levels acceptable under the universal soil loss equation."

Another farm manager, Ray Eichelberger, also from the Champaign County Bank & Trust Co., states:

"During the past 5 years we have established parallel terrace outlets on five farms in east central Illinois. After completing the projects on these farms we are able to grow more of the crops such as corn and soybeans which have a good demand not only in our domestic market, but also in foreign trade. Thus these products help to reduce our deficit of payment problem and also provide food for the millions of underfed and hungry people of the world. Furthermore the conservation projects, once established on the farm, protect the soil from erosion and preserve the productivity of the land for future generations. In addition, if soil erosion is reduced the drainage water from the farm will not contain silt, which in the past has accumulated in our streams, rivers and lakes of Illinois."

The ASCS has the trained personnel to handle an enlarged program, without an additional expense. We have aerial maps of every farm in the county. We have assigned a production level of corn to every farm. We have representatives on the township level, made up of farmers, elected by farmers, who know pretty well the characteristics of every farm as to ponds, rocks and erosion.

We are appalled at the loss of soil by water and wind erosion. Surely no farmer wants to give up his freedom of farming as he likes, but unless farmers change methods of soil preparation, mandatory regulations will soon be necessary.

I have just finished reading a book that has been on the list of best sellers, titled "The Late Great Planet Earth" by Hal Lindsey. Although the main subject of the book is relating how Biblical prophecies are coming true, Mr. Lindsey does list 3 major crises facing the world today. They are: (1) Overpopulation, (2) nuclear power, (3) pollution. And this last one, pollution, involves those who till the soil.

The practice of stewardship is as old as the Bible itself. For those who are good stewards, the reward is great. I believe many, many farmers are good stewards.

I would like to suggest a slogan for all of those who are responsible for maintaining our precious soil for future generations, "That they live as though they will die tomorrow, and farm as though they will live forever."

I thank you for the privilege of appearing before this committee.

[The complete letters of Mr. Mosier and Mr. Eichelberger are held in the committee files.]

Mr. MADIGAN. Thank you very much, Mr. Parett.

Mr. Little, you are next, sir.

STATEMENT OF BYRON LITTLE, FARMER, ARCOLA, ILL.

Mr. LITTLE. Mr. Madigan, my name is Byron Little.

I farm 900 acres in Douglas County, and I have farmed for 25 years.

I would like to testify on behalf of the soil conservation and the county committee system.

I would like to relate to you an experience with the local committee. This past year, my wife and I bought 10 acres of timber ground that had been a game preserve for over 30 years.

It had a meandering gully across one side that was eroding and losing soil into a major river.

We thought it had good potential for a farm pond, whereas water is very scarce in this area.

I went to our local ASC Office and told them I wanted to sign up for cost-sharing on a farm pond.

The lady sort of laughed and said, "We haven't been handling farm ponds any more."

I said I would sign up anyway.

I made an appointment with the local soil technician.

He took a core sample of the down side. He said it would hold water and would be a great place for a pond.

I asked him about cost-sharing, and he said it wouldn't qualify because it did not have enough soil erosion and farm ponds were of a low priority on the list.

My next step was to talk to the county committee. They came out and assured me that they thought that there was erosion and they thought a pond would be the answer.

To make a long story short, I got my farm pond, and it will continue as a game refuge and recreation for many people for many years to come.

Hopefully, silting in this part of the river will stop.

The point I am trying to make is that the local county committee has better knowledge of the problems of farmers and landowners and how those funds for conservation practices should be spent than most qualified technicians in SCS.

I thank you.

Mr. MADIGAN. Could I ask you a question?

Mr. LITTLE. Yes.

Mr. MADIGAN. Isn't your pond going to silt?

Mr. LITTLE. It will greatly reduce the runoff, because the farm across the road just runs over the road and through this gulley and directly into the river. We hope maybe it will stop some of the erosion. Other than a catastrophe like a 12-inch rain like we have had in the past. There won't be anything to stop that.

Mr. MADIGAN. I don't want to discourage you, Mr. Little, but my dad built two of those, and he got help from the Federal Government. Back then it was about 40 percent for one part and 60 percent for the other part of it. And, over 3 years, he used to spend \$3,000 to have the silt dredged out. It became a very controversial thing between my mother and father. I just wanted to warn you about that.

Thank you Mr. Little. Mr. Glen Hughes is next, but I understand both Mr. Hughes and Mr. Chandler are picking corn today. They

said they would submit their testimony to be sent to Washington. We understand what they are doing and why they are doing it this afternoon.

We will now hear Mr. Maitland Rice. Please go ahead, and thank you very much for joining us. I observe that you came all the way from Owensboro, Ky.

STATEMENT OF MAITLAND RICE, VICE PRESIDENT, KENTUCKY ASSOCIATION OF CONSERVATION DISTRICTS

Mr. RICE. Thank you, Congressman Madigan. I am Maitland Rice, vice president of the Kentucky Association of Conservation Districts, and I am speaking to you today on their behalf.

Kentucky has 121 conservation districts with 847 supervisors and more than 80,000 district cooperators. Our association and the local conservation districts are very concerned about the topics you are addressing here today. It is a pleasure for me to bring some of the views of Kentucky's conservation districts to you.

We, in Kentucky, feel we have a strong, sound, conservation program. However, we do have problems, and I would like to discuss some of these with you today.

First of all, I would like to address technical assistance provided to our conservation districts. In recent years, due to budgetary restraints and personnel ceilings, technical assistance to our conservation districts has declined dramatically.

As you are aware, conservation districts must rely on Federal, State, and local agencies to provide us with either funding or personnel to provide assistance to our land managers in planning and applying conservation measures.

At the same time, the Federal technical assistance to our conservation districts have been declining, we have been given the opportunity to host new programs. These include the Federal Water Pollution Control Act, section 208, as it relates to agriculture and construction. Another is the rural abandoned mine program of the Federal strip mine legislation. Both have increased the demand for soil survey information and technical assistance in general.

In addition to the cutbacks in personnel furnished by the Soil Conservation Service—and I would like to make a point right here, Congressman Madigan, that the reduction in personnel is the cause of some of the things I have stated here.

We have had, in addition to these people, the services of some 80-people made available to our conservation districts through the Comprehensive Employment and Training Act, or CETA as we know it. Because of the termination of the contract on September 30, we are unable to provide the services of these people to our cooperators, thus further straining available personnel resources.

Our conservation districts feel that if they are to take full advantage of these opportunities to help implement the new Federal program, in addition to the on going program of preventing erosion and sedimentation, our districts must have available the services of qualified people to provide adequate technical assistance.

I have mentioned a number of Federal programs, and there are State programs as well, that conservation districts are being asked to participate in or to implement. We feel we are spreading our available resources too thin to be as effective as we should be.

Many of our conservation districts feel that we should confine our major efforts to the planning and application of a more basic conservation program. This basic conservation program would address a broad array of problems, including the areas I have already mentioned, but would not be limited only to these.

In other words, if we have a sound program of planning and applying conservation measures on the land, then this undoubtedly will have an impact on water quality erosion control as it relates to agriculture, construction, mining, or whatever. Sound conservation practices will also benefit wild life habitat and improve our fish resources.

I could go on, but I believe I have demonstrated that conservation practices properly applied on the land will have a beneficial impact on these and many other natural resource activities. Over the years, we have taken steps to increase the State and local government financial and technical assistance share of the conservation program.

This effort has been quite successful, and we now have county and State government contributing substantially to the program.

In the case of the soil survey program, the State has willingly contributed both manpower and funds in an attempt to accelerate the surveys so that the public demands for this kind of information may be more nearly satisfied.

However, within the past few years this effort has been actually slowed down by a serious cutback in Federal funds available through the Soil Conservation Service for such surveys. This has been counter-productive to the intent to accelerate the program, and we have essentially lost all of the value of the State and local contribution and maybe even some of the enthusiasm for considering other activities which may need such acceleration in the future.

For a few moments, I would like to discuss some thoughts regarding cost-share incentives for the application of conservation practices.

For the last few years, we have seen a shift in the agriculture conservation program administered by ASCS of USDA to more permanent type conservation practices aimed at improving the environment.

We feel this is an definite step in the right direction and should be emphasized even more in future years as these practices serve the public in protecting our resource base and improvements in water quality.

Through the years, we have applied permanent conservation measures on the land more or less as a one-shot proposition. We feel something is needed to strengthen this program, whereby incentives are provided to maintain these conservation practices after they are installed.

We feel a maintenance program of this type would be a wise investment in the protection of our land and water resources.

In this regard, one of the main reasons these practices are sometimes destroyed before their full effectiveness is realized is the change from year to year in production trends of food and fiber.

When the demand for food and fiber increases and prices for these commodities are attractive, many of the conservation practices are put to the plow, thus becoming ineffective. We in Kentucky have experienced this in recent years.

We have a great many acres of marginal land devoted to the production of corn and soybeans which should have been left in grasses and trees.

Unfortunately, in years when there is a cutback in production, financial resources are not available to reestablish the conservation measures.

There is a need for some type of program to insure that where these conservation practices are installed they will continue to be maintained to serve the purpose for which they were applied.

Thank you very much, Congressman Madigan, for allowing me to make these statements.

Mr. MADIGAN. Mr. Rice, thank you very much for traveling all the way up here from Kentucky.

I hope you will be able to stay with us for just a few minutes. I understand we have one more witness, Mr. Ed Bowman.

Please come forward, Mr. Bowman.

STATEMENT OF EDWARD A. BOWMAN, ONEIDA, ILL.

Mr. BOWMAN. Mr. Chairman, and members of the subcommittee, my name is Edward A. Bowman. I live and farm at Oneida, Ill., which is located in northwest Illinois in Knox County.

I appreciate the opportunity to appear before your subcommittee.

I also appreciate a congressional committee coming out into the country to get grass roots input into any proposed actions considered to help conserve the Nation's private land and water resources.

It is good that our Congress recognizes the need for a conservation of our soil and water resources for the generations that follow us. The farmers and ranchers of this Nation that live on the land are the closest and most aware of the need for good soil and water conservation measures.

Inasmuch as our Nation is so varied in its topography and climate, it is virtually impossible to legislate good soil and water conservation. It seems to me that the local people in each of the varying land areas, whether in the dry arid regions of the high plains and the southwest, or the humid, wet areas of the gulf and east coasts, are in the best position to see and to install the conservation practices that best meet the local need.

The farmers' and ranchers' primary limitation in installing these practices is the lack of adequate funds to do the permanent, long-range projects that are needed to solve the conservation problem.

The individual farmer or rancher is, at best, a short-term steward of the soil to which he has title. Many conservation practices do not pay for themselves in one lifetime, yet they have a long-term benefit to the area for years to come.

This long-term conservation practice benefits not only the landowners involved in the practice installation, but all the land that drains on to him and in turn all the land that takes drainage from him.

Many times the area involves many square miles and many thousand acres.

Included in the area benefited are villages, cities, and many times large municipalities. So the real benefactor of the conservation practice is society in general.

Mr. Chairman, if society in general benefits from a sound conservation practice, then Federal funds are justified.

In my humble judgment, the program that comes the closest to meeting this need is the agricultural conservation program, which is commonly called the ACP.

The ACP program features:

One, local control of the conservation program; and, two, Federal cost sharing of conservation with the farmer and the rancher.

Local control is maintained by a annual election of farmer-elected committeemen. These committeemen determine the conservation needs within the community and the best conservation practices to solve the conservation need.

Federal cost-shares are also determined by local farmer-elected committeemen within some proper State and National guidelines.

I would suggest to this subcommittee and to our Congress that the ACP program be greatly expanded with sufficient funds appropriated to provide the long-range solution of our conservation problems for the benefit of all society and the consuming public.

Gentlemen, the greatest benefactor of such an expanded ACP program would be our sons and daughters and their children after them. What greater gift can we give them? Thank you for your time. If I can answer any questions, I will be happy to do so.

Mr. MADIGAN. Mr. Bowman, thank you for your very sincere statement.

Mr. BOWMAN. Thank you.

Mr. MADIGAN. Have we overlooked anyone who wanted to testify on either of the subjects today?

Yes, sir?

Mr. BUCHER. I want to testify on the credit subject.

Mr. MADIGAN. You are more than welcome to do that right now if you like.

STATEMENT OF RODNEY G. BUCHER, VICE PRESIDENT, OLD REPUBLIC LIFE INSURANCE CO.

Mr. BUCHER. I am Rodney G. Bucher, vice president of Old Republic Life Insurance Co., Chicago, Ill., and I appear today on behalf of that company and its affiliated companies that write insurance for members of Production Credit Associations and Federal Land Bank Associations.

Various of the Old Republic Insurance Cos. write insurance throughout the United States, Canada, and elsewhere. For 28 years we have served members of PCA's and FLBA's with various insurance programs.

The various Old Republic Cos. write credit life insurance, credit disability insurance, mortgage life insurance, crop hail insurance, and, on a somewhat more limited basis, collateral insurance.

We serve approximately 250,000 to 300,000 farmers and rancher members of the farm credit system.

The Old Republic Cos. favor the amendments that have been proposed to the Farm Credit Act believing that the farm credit system has benefited farmers and ranchers throughout the Nation and that it does so currently without the involvement of any Federal funds whatsoever.

I have read with interest certain testimony previously given before this subcommittee and have heard testimony today which would indicate that there are those who believe that the act should be amended to prohibit production credit association and land bank associations from making insurance programs available to their members.

In support of these requests there have been erroneous implications that there is a matter of unfair competition involved in that there is some kind of Federal subsidy that is applicable and that there is the potential, real or imagined, for coercion.

It should be noted that such allegations are made exclusively by those who are in the business of selling insurance.

You will find not one single farmer making any such allegation relative to coercion and, of course, you are aware that there is no Federal subsidy involved.

Apparently everyone concedes that PCA's and FLBA's should be able to make credit life and credit disability insurance available, but some of our competitors would have you believe that other insurance programs should not be available through PCA's and FLBA's.

The reason no evidence of coercion has been presented to the subcommittee is that, as best we can tell, such is totally nonexistent.

We have discovered none during our 28 years of involvement in the business.

For nearly 12 years, I have been involved with these programs, and during that time all insurance department complaints from State insurance departments throughout the United States relative to programs written by the life companies have crossed my desk and been read by me.

During all of that time I have never seen a complaint concerning any alleged coercion in connection with any of these programs.

Our experience is similar on the crop hail and collateral programs. Indeed, the low levels of penetration, approximately 40 percent nationwide, that is the number of farmer members for whom we write crop hail insurance as compared to those for whom we do not, is sufficiently low as to argue strongly against any coercion or undue influence being exerted.

It certainly is not in the interest of any financial institution whose primary business is lending money to coerce its borrowers into buying insurance. After all, the typical loans involved are for 1 year or less and the farmer who is unhappy can seek his loan elsewhere.

Repeat business is the lifeblood of many lending institutions and coercion of its borrowers would rapidly eliminate it from the marketplace.

This is especially true where the lending institution is, in fact, owned by its borrower-members, which is true of production credit associations and Federal land bank associations.

These members elect their board of directors and are not about to put up with any such nonsense.

The Old Republic Insurance Cos. are strongly in favor of competition in the insurance marketplace, and we believe that the experience of all farm supply and marketing organizations that also extend credit and offer insurance should be considered.

Farm bureaus, the Farmers Union, and the Grange, and other co-operative farm organizations which offer credit to their members and have insurance products available to them, have demonstrated that better insurance products for the farmer and rancher evolve from this added competition.

Certainly the entrance of the farm bureaus in the 1930's and 1940's into the farm oriented insurance marketplace substantially improved the insurance products available to farmers and ranchers in many States. Such is also true of the Farmers Union and the Grange.

We commend these organizations for the fine services in bettering insurance services in the agricultural community.

In conclusion, it is our belief that all studies made to date show that insurance is only a secondary service of these financial organizations, and that the primary service is lending money. There is no way that the secondary service of insurance will take precedence over the primary reason for the existence of these institutions.

The simple fact is that the public is better served through having competition and not by any elimination or reduction of competition in the insurance marketplace.

Thank you very much.

Mr. MADIGAN. I also thank you very much.

Mr. Chairman, this gentleman was a complete surprise to me. He and I were together over in Lincoln, Ill. a lot of years ago and both in politics.

I am still in politics and he is now a very wealthy insurance executive.

Mr. JONES of Tennessee. It just goes to show you that some people do succeed.

Mr. MADIGAN. I think we have exhausted the list of witnesses on the conservation issue.

Wayne has indicated the possibility of there still being some other witnesses in the room on the credit issue.

Mr. Wagner, please step up to the witness table.

Mr. Wagner, you may proceed as you wish.

STATEMENT OF ROBERT WAGNER, FARMER, CARTHAGE, ILL.

Mr. WAGNER. Before I make my remarks, I would like to say that we are finally down to the grassroots.

I shut off a tractor today to come over here and make this testimony. I have heard several references to being connected with farms. I am a farmer.

My name is Robert Wagner and I am a grain farmer living 12 miles north of Carthage, Ill., in Hancock County.

I am in no way connected with the Farm Credit System except that I use the services of both Federal land bank and Four Rivers Production Credit located in Carthage.

I first began using PCA 30 years ago. At that time the loan limit at my local bank was \$15,000, which was not enough to put in a crop and certainly not enough to replace any equipment.

Instead of going to a corresponding bank, the president would make personal loans to those he found worthy.

This was fine, except that during the depression his father had done the same thing and, as a result, had foreclosed on several people and accumulated considerable wealth. I didn't feel I wanted to be a part of that.

Today the loan limit is \$30,000. That is still not adequate.

Country banks hold a small percentage of total bank deposits and provide over half of agricultural credit. They are also pinched by savings and loans for local funds.

This is another advantage of the PCA's who get their funds directly from the Nation's money market.

I just this week completed my corn harvest. What corn I had to put on the market because of lack of storage space netted me \$1.91 a bushel. It takes a number of bushels at that price to pay for a \$70,000 combine or a \$30,000 tractor. And those are not the large size.

It is practically impossible for a young farmer to get started under these conditions.

H.R. 4782 could help the price situation by helping finance processing and marketing operations related to farming.

Also, they could finance export transactions, which would help exporting co-ops expand their international trade.

All these should benefit local market prices.

Finally, I like to think of my farm credit building as a money service station. Just as you take your car to a service station for gas, you also have the tires, battery, windshield wipers checked and other minor repairs.

I get my money service at my PCA. If I borrow a considerable amount of money, I want credit life insurance. This service is available to the same office.

If I take out hail insurance on my growing crop, I more than likely will borrow the money to pay for it. What place is more convenient than my local PCA?

It is a one-stop service where I can get what I need and be on my way.

No one has ever told me that I must use the services or coerced me in any way, but I think it is just more convenient for me.

I certainly would not like to see these services taken away.

Thank you.

Mr. MADIGAN. Thank you very much, Mr. Wagner.

Mr. Butcher, please proceed.

STATEMENT OF LARRY BUTCHER, FARMER, MACOMB, ILL.

Mr. BUTCHER. Thank you, Mr. Chairman, Mr. Madigan.

I am Larry Butcher. I am a farmer from McDonough County.

My address is Rural Route No. 3, Macomb, Ill.; and I farm 750 acres and carry on a sizable hog operation of approximately 3,000 head per year.

I am in favor of amending the Farm Credit Act of 1971, as these amendments now appear, without any further changes, H.R. 4782.

I feel that the bank for cooperatives should be allowed to finance cooperatives for the purpose of financing exports of our farm products. In my opinion, these cooperatives should be able to expand international trade.

I am definitely in favor of the Farm Credit System to be exempt from State laws which might limit the amount of interest that may be charged.

My reason for feeling this way is that, if States are allowed to set the usury laws on the Farm Credit System funds for myself and other farmers, we could be very short in times of high interest cost.

At this time, I would like to talk about the fact that I have heard that there has been considerable criticism about PCA selling insurance.

I have definitely heard that PCA has been accused of using coercion in selling insurance. In the 12 years that I had been with PCA, I have never been forced to buy insurance.

There have been times when I would have been very vulnerable to coercion due to the fact of the size and quality of my loan; but there has never been any pressure to buy any insurance from PCA.

In my particular association there are three insurance programs offered; crop hail, crop life, and farmowners insurances.

At the present time I am only using the crop hail program, and in no way has any PCA person tried unjustly to get me to use anything else.

I do feel this is a direct benefit to the members of the association because the profits of this go to the association and no employee receives anything. This profit is used to reduce the cost of the interest we pay through the PCA.

For these reasons, it is to my benefit, and the benefit of all farmers for PCA to have these farm related services.

In addition, I would like to present copies of letters written by farmers in our four county area to be introduced as further testimony.

Thank you.

Mr. MADIGAN. Mr. Butcher, your packet of letters will be held in the committee files. Thank you very much.

Mr. Otten will be our next witness.

STATEMENT OF STANLEY OTTEN, FARMER, MACOUPIN COUNTY

Mr. OTTEN. Chairman Jones, Representative Madigan, and other members of the subcommittee, I am Stanley Otten, a farmer from Macoupin County.

I have been a member of a PCA for over 34 years. I have been a director of Illinois PCA at Carlinville, Ill., for 21 years.

I also am presently serving as chairman of the PCA Advisory Committee on the Sixth Farm Credit District and I failed to indicate when I prepared the statement that I have also been chairman on a rural electric for some 25 years.

I appreciate this opportunity to present some of my views concerning H.R. 4782, the Farm Credit Act amendments of 1979.

I am quite concerned about some of the testimony—and I might add also, as I say, that I am a farmer. This is a family farm that I operate.

My wife and I farm 600 acres of grain and livestock farm.

I suppose you would think that at my age I would be slowing down. Just yesterday I closed another deal to add an additional 80 acres to the farm.

Someone mentioned that we should farm like we were going to live forever. That is what I am trying to do.

I am quite concerned about some of the testimony that has been presented against different aspects of the past and the proposed legislation for the farm credit system.

This system is farmer owned and controlled, as has been reiterated today, and uses no tax dollars.

The money loaned is obtained from the sale of bonds on the open money market on Wall Street.

I do know of a better example of the free enterprise system that has made this country the envy of the world today.

The farmer of today is not the same person we were dealing with a few years ago. In fact, he has been referred to as that new breed of cat.

He is a sophisticated businessman and demands more and better services than ever before. Most of your farms of today, there is more money involved and tied up in them than is in the average business on the main street in town.

I think the farmer is one of the most misunderstood persons in the country.

He is not given credit for what he is doing.

I cannot understand why we should not be allowed to provide services such as certain types of insurance, Agrifax, or other services that farmers want to use on a voluntary basis.

It has been charged that PCA's force borrowers into taking the services to obtain loans. Nothing can be further from the truth than that statement.

At the present time I am using Agrifax. I have been since the start of it in our association. I was not coerced into taking it.

I am using credit life, and this is the only insurance service that I am taking.

I have other insurance on the farm with independent agents and with companies that have testified here today against this. And when I get home, I am going to take another good look at my insurance. If they are opposed to these services, serving ourselves with insurance in a way patronizing everyone.

that I think is better or cheaper, maybe I ought to take a look at it. Maybe I ought to get more insurance from my association rather than

I am trying to get where I think I can get the best service and the cheapest service. And I think every farmer should be entitled to this choice.

I realize that I am slipping away from some of the prepared statements that I have in my statement, but I knew that the time was going to be short.

Mr. Fletcher asked me the other day to try and keep my remarks to 5 to 7 minutes, and I assured him that I could tell them all I knew in probably 3.

The proposal to allow FLB's to make loans for more than 85 percent of the appraised value of farm real estate when such loans are guaranteed by a Federal agency such as FmHA or by a State government, is essential to allow a lot of young farmers to get a start. What with the cost of farm machinery and all it is very difficult for them to get a start.

The provision to authorize banks of cooperatives to finance agricultural export transactions benefitting U.S. farmers through their cooperatives should be approved to help the farmers' income and improve our balance-of-trade position.

Without the farm commodities to help the past few years I would hate to think what our balance-of-trade deficit would be at this time.

In conclusion, I want to state that I support the proposed farm credit legislation 100 percent.

If I have made any statements that are not clear to you or you do not understand, I would be happy to try and answer any questions you might have.

Mr. MADIGAN. Mr. Otten, thank you very much.

Mr. CHAIRMAN. I think that we still have one more witness who has come forward, Mr. Charles Guthrie from Taylorville, Ill.

STATEMENT OF CHARLES GUTHRIE, TAYLORVILLE, ILL.

Mr. GUTHRIE. Mr. Chairman and Mr. Madigan, I have recently been appointed committee chairman for the Conservation Committee of the American Agriculture of Illinois.

This is the American agriculture movement, striking farmers. As you probably know, we were out in Washington last year.

In this country, we are so used to spending today and paying tomorrow that we are letting our spoils and other natural resources be wasted so that we can live high today.

The SCS says, for every bushel of corn we produce, we lose two bushels of soil. Who can set a price on a bushel of soil? I can't.

We know we must stop the soil's loss, if we are to maintain the soil's productivity. Our soil is America's wealth.

It is by far our largest means of renewable resource. We harvest a crop, in most cases, each season. In some instances, more than once a season.

If protected properly, it will continue to do so forever. If allowed to wash into our lakes and streams, we not only lose its productivity, it becomes a cost to remove and treat water so that it is usable.

It certainly cost a lot more to remove soil particles from drinking water than it would have to have kept it where God put it.

I'm concerned that we are taking too much prime farmland for other uses. We must have our prime land for food and fiber production.

We develop prime land into six- and eight-lane highways. It is lost to food production.

If we develop our farm—prime farmland into housing sites, manufacturing plants, and many other nonfarm uses, we lose our most valuable asset, that of a renewable resource.

Sure; developed land is more valuable today, but let's look to the future. This country is only about 200 years old, yet, in this relatively short time, we have taken from food production billions of acres.

This trend must be stopped, or future generations could be forced to grow food with very limited space.

Many countries are not blessed with soil as productive as ours. It certainly shows up in their standard of living.

Let's look ahead and not waste prime farmland. Let's protect our most valuable resource, our land, from unnecessary urban spoil, excessive erosion, and other uses that render the land unusable for food and fiber production.

We need leadership in Washington who understands the problem and is willing to lead, not follow.

I hope this subcommittee can be these leaders. We certainly don't have leadership in Washington when they want no set-aside next year. This, when we have just raised a record crop.

Our Secretary of Agriculture wants us to grow even more at the expense of our soil.

I am in favor of selling food to any hungry nation, but I am not in favor of selling it to them at a price that is below the cost of production.

By this policy, we are depleting our natural resources in this country so that some other country will be able to eat cheaper, then have more money to have arms and increase their manufacturing capacity to compete with our capacities.

I am in favor of changing our welfare policies to one of giving surplus food to needy nations instead of dollars. This means our Nation isn't supplying arms and military aid to someone who uses it against us, such as Iran this past week.

In not having a set-aside for next year, we will have many marginal acres planted to row crops. The loss of topsoil on these acres will be great, much greater than justifiable.

We see people get up in arms over such things as the snail darter fish. How much more up in arms should our Nation's people be with Washington when we see conservation practices plowed up and planted to crops?

I am in favor of conservation of our wildlife, but how much more important conservation of our soil and natural resources really is. Our land is our life. We can get by without almost everything but food and water.

Food is produced from our land and water. Our unwise use of land and water makes our water less drinkable in many cities.

In closing, I encourage you to take the leadership in developing farm policy that conserves our soil, cleans up our lakes and streams, and rewards those people for their stewardship of our soil, the American farmer.

Thank you, Mr. Chairman and Mr. Madigan.

Mr. MADIGAN. Thank you very much, Mr. Guthrie.

I think we have now depleted all the witnesses on both subjects.

If those of you who testified on conservation would like to come up and have some chairs around these two tables, as you are doing that, I might tell you that Mr. Jones has been, in my judgment, at least, the

only Member of Congress who has consistently been interested in conservation.

It has been very instructive for me today to hear so many people from Illinois expressing an interest in conservation, because, frankly, I have not had that kind of exposure.

Mr. Jones has had some very special problems in Tennessee, and has been trying to convince me and others that those are actually nationwide problems. And certainly the testimony today would indicate that be the case.

Mr. Jones, because you know more about this than anybody else, why don't you get this started?

Mr. JONES of Tennessee. Thank you, Ed.

I don't know about anybody else. I am just concerned because it has been a problem for me all of my life, and it has been a problem for my State and the South in general, where I have spent most of my life.

For the last several years, since we have been farming the whole countryside and the price of soybeans has been good and the price of most row crops have been good, people down my way have all wanted to go to row crop farming.

Consequently the hills where I live and the slopes are washing away.

In the 21 counties that are west of the Tennessee River in Tennessee, of which 15 I represent, there is a loss of an average of from 30 to 50 tons of topsoil per acre per year. And that will run you crazy or make you want to do something about what the problem is.

You know, Ed, as we have been having these hearings all over the country. I find that the soil problem is about as serious in other places as it has been here, except for the fact that we get more rainfall, and for that reason we get more erosion to cause more rainfall.

Recently, I have challenged the Tennessee Valley Authority, which has been a very influential agency in my area—not in my Congressman area, but in my State and in the South—to do something about soil erosion and soil conservation.

And they have come up with some proposals and some ideas that have been helpful. For that reason, we have been looking at it a lot more seriously than ever before.

And the National Association of Soil Conservation Districts have come forward with a lot of help, as well as the State associations that we have worked with. And I am very hopeful that, by the time we write the 1981 farm bill, that we can have something in there that would be fundamental for the preservation of our soils for the generations to come after us.

We really don't have to worry too much about what we are able to produce in our lifetime, but somebody is going to be following us, no doubt, and I think we need to be protecting their interest.

For that reason, I have voted and dedicated myself to trying to do something with the conservation problems that we have.

I find I have them on my own farm, just the same as other people do. It is just like sin. It will get into anybody's program if you are not careful.

And to that reason I have been very much interested in what you gentlemen have said today, what we have had all over the hearing areas that we have been to and we have been hearing in Washington as well.

Before we start talking—and we won't take much time because I have got to go pretty soon—I want to say to you who are left here, and to you, Ed Madigan, that this has been the best hearing that we have had. The statements have all been great.

I don't agree with everything that has been said. I want you all to know that. But I think they have been good, and the witnesses have really moved out with some speed.

For that reason, I think we must have had, what, 30 witnesses today, something like that.

But it has been real good, and challenging to do a thing of this sort.

I would like to talk about farm credit a little bit, but we are not going to have time. But I would like to just discuss some conservation with you gentlemen.

Now, Mr. Guthrie, did he leave? He is here. He was talking about that too.

Why don't you come back up here too, because you were alluding to the same thing that we are talking about as far as the set-aside is concerned, and I find a lot of people are concerned about the set-aside.

I didn't have anything to do with making up the Secretary's mind on that. I might have supported something other than what his decision was, but it is his decision and we will try to live with it as best we can.

I would just like to know what you fellows are thinking. My belief is that, with the tremendous amounts of land that is owned by absentee farmers—owners today and farmed by other people, primarily renters, that we are going to have to come forward with some sort of a challenge that will induce that man who owns land in Tennessee but lives in Florida and is looking for a check and cares little really about how good that soil remains for the next generation, we have to come up with some idea that will induce her, the widow, to cooperate.

And I mean by giving long-term leases to people who farm the land or to give her some sort of incentive to want to improve and preserve that soil a little bit better than she is doing.

When I refer to a lady in this regard, I am just reminded of the fact that they are the ones who finally inherit most of the land, because they outlive all of us men. It is an absolute fact that women do own an awful lot of land in this country.

I think we have got to come up with something that is going to induce the absentee owner to want to conserve the soil. And at the same time something has got to be done to induce him to want to conserve more than just producing from the land.

I don't know what it ought to be. I have thrown out a lot of ideas about some things that might take place, something that is similar to the highway trust fund that built our Interstate System, or an inducement for supports on commodities that are grown for the ones who cooperate, to get a little premium.

Or for something in that regard that would cause people to want to do something about the most important natural resources that this country has, the land.

I would like to hear from any of you.

Mr. FRICKE. Mr. Chairman, just to comment that I spent a period last night over in Springfield with a fellow from Tennessee, Senator

Baker, so maybe we are being invaded just a little bit this weekend by the good folks from Tennessee, but it is a pleasure to see both of you.

In regard to how we might best approach this whole area, just a couple of thoughts.

I think we ought to look at the present situation in Illinois. If we look back over the years, there has been a bad lack of awareness of a problem existing. I think we see several things developing at the present time.

We have a water quality situation. We have the 208 water quality that is bringing attention to the fact.

We have a sedimentation and erosion control program now in the State of Illinois.

We're also working with an energy conservation program.

It is surprising how all of those things dovetail so well together to focus attention in the farm community as to the need for conservation.

I think it is an educational program that is greatly needed, and it applies to that absentee owner as well as the owner-operators. I think we have to reach all of them and increase the awareness.

I think there is a lot that can be done at the farm level by the present owners without a great deal of subsidy from either State, Federal, or local.

I think if we can create that awareness, an awful lot does happen. We can make a lot of progress simply by conservation tillage methods that aren't going to add a great deal of cost to the individual land-owner but can have major implications on keeping the soil in place.

So, I think there are things working as we see them here in Illinois very favorable to making progress on soil conservation. If we could capitalize on the awareness that is developing and expanding on that, then I think, with strong State, Federal, local support, we can forge ahead in this whole area.

I certainly share your concern for keeping the soil in place.

Thank you.

Mr. JONES of Tennessee. Thank you, Mr. Fricke. That was a very fine statement.

Mr. MADIGAN. May I ask a question?

Mr. JONES of Tennessee. Yes, sir.

Mr. MADIGAN. Because they all are operating farmers, in addition to whatever else they are.

There has been some talk about the Federal Government establishing minimum conservation standards in requiring that a farmer, in order to be a participant in a set-aside program, a crop insurance program, abide by those minimum conservation practices.

I wonder what you gentlemen think about that?

Mr. Ed BOWMAN. Congressman, I think we are endangering the concept of American freedom when we talk about mandatory anything.

Mr. MADIGAN. This would just be in the event that you wanted to be a participant.

Mr. Ed BOWMAN. I realize that, but certainly that could mean, to the point and time of such an incentive, that it would be almost impossible to stay in business if you did not so-called go along.

I think it would be a mistake and a step backward when we have won our wars to come home and lose the battle at home, which, in my judgment, that would be doing.

I realize we have an obligation to society as a farmer, but we also have a system of Government that we are very proud of. And that would surely be going backwards, to tell our people that have a big investment how they must use it and to qualify for certain financial advantage.

MR. MADIGAN. But within those freedoms, which we all cherish very much—we say in many communities, many counties:

If you are going to build a building here, even though it is your building and even though you are going to pay for it and even though there is no funds of any kind from any unit of Government involved here, you're going to build and maintain it to our specifications.

MR. ED BOWMAN. We are talking about a different thing though. This is perhaps a unit of safety you are talking about, a building being x number of feet from the highway, from a street, so that this vision is there.

We are talking about a basic resource, our soil.

We have a capitalistic society which we are proud of, and to dictate to people how they best use that is not necessarily in safety but a form, in a minor degree, of dictatorship of principle.

MR. MADIGAN. I understand that you would feel that way, but, as I said, it is something that has been talked about.

And I know Mr. Fricke wants to talk about it too.

MR. FRICKE. Mr. Madigan, I think if we look at the history of cost compliance with the number of other programs, and look at this one as well, we impede both programs when we try to get cross compliance provisions locked into those things.

There are so many ramifications and so many reasons why cross compliance provisions lock people out who rightfully should be involved in the program, that I think we ought to look carefully before we get caught in that trap.

MR. JONES of Tennessee. Of course I think what Mr. Madigan is alluding to and what you are saying, there is some big differences in the two.

I think that you are thinking more in terms of land planning. I agree with you that when you go to talking about land planning that we have to be very careful. And we have, in the Congress.

He and I and many others have fought some of those bills that we thought would lead eventually to something of that sort.

But now we are talking about the greatest natural resource that we have here, and it is slipping away from us. It is slipping rather rapidly.

I don't think we are fixing to run out of something to eat or anything of that sort, but I think that we are going to see that somebody in the future generation will see the time when we are going to fall as far as our production abilities unless we do something to conserve the soil.

Now, whatever that is, it may be up to somebody else to do. But we have been under some of those surveillances before.

We have had mandatory controls in agriculture. At times, without a doubt, they worked and they paid off.

But now we have got the ability to sell everything that we can produce today to some other nation for a profit—and, by the way, we are going to do it. Farmers are going to produce everything they possibly can. But somewhere along the line it seems to me that we are going to have to take notice of the fact that, in order to continue to keep on producing, we are going to have to sort of conserve the soil too.

We have two big problems. We have a loss of soil problem, but we also have a channelization problem.

We have a water problem. You have alluded to that several times, Mr. Fricke. It is not only here today, it is all over the country where rainfall is heavy as it is here.

And if you solve the soil loss problem, you help to solve your water pollution problem very much so.

Mr. ED BOWMAN. I would suggest, sir, that this could be done on a voluntary basis if there is a proper incentive. I think we are all agreed that there is a problem and we all share your concern.

But my concern is for the sacrifice of the mandatory provision that Congressman Madigan was speaking of.

Mr. JONES of Tennessee. Well, I think what you are saying, Ed, is the minimal conservation standards that some people have talked about—and I am not even sure who has talked about it. I don't even remember whether it was some of the Soil Conservation agencies or some of the members of the committee.

But it was nothing that was going to make the country a police state or anything of that sort. I think we all would be opposed to that.

Yes, Mr. Guthrie?

Mr. GUTHRIE. I would like to say that, with freedom comes responsibility. And I feel that, as a Christian, and as a farmer, it is my responsibility to farm my land in such a way that it doesn't erode and cause a problem in the lakes and streams and the problem on my neighbor's farm when my water washes across his.

I don't quite agree with a lot of people—and I say where there are three farmers there are four different ideas on how to solve a problem, which is probably true—but I still feel like we do have, even though we do have freedom and we want freedom to do with our land what we see fit to do with it, we still have a responsibility to keep the land in its productive state, at least as productive as we received it.

In my own mind, I tried to pass my land down or hoped to, with it more productive than it was when I received it.

Mr. JONES of Tennessee. OK. I have an answer for you.

I like what you say. It suits me fine. I feel the same way.

But there are jillions of people out there who own land who don't give a darn about it, and you know that as well as I do. That is who I am talking about.

Mr. GUTHRIE. I realize this is true. In my own mind, I feel that if we aren't responsible enough to do the job voluntarily, then we are going to have to accept something mandatory or something like the green ticket program that Wilbur is proposing here, or the National Association of Water Districts is proposing, as incentive

maybe, or some other means like the cross compliance as a means to get these people who will not cooperate voluntarily into some sort of conservation.

Mr. JONES of Tennessee. I don't know what sort of a problem you have. You may not have this problem, but there are places in the United States that seriously have this problem of absentee ownership of land.

I doubt that you have that here like we do further south.

But that is a serious problem. And those people who own that land, really, they live in Florida and California and other places in the country, and they really are not concerned about what takes place as long as they get that check.

Mr. GUTHRIE. Not in all cases. I farm some ground for some people who live in Ohio. I am the third generation on that farm, farming for the third generation. The farm has been passed on for three generations. And I am the third generation that is farming this same farm.

We have been doing some conservation practices yearly until this year, and my landlord wrote me at the first of the year and said that this year we won't carry out any conservation practices because funds have not been coming in, in adequate supply to justify the increased cost for the conservation practices.

We have been putting out some terraces, parallel terraces, and waterways and this sort of thing.

Mr. JONES of Tennessee. You mean you are the third generation in your family that is farming this soil?

Mr. GUTHRIE. Right.

Mr. JONES of Tennessee. That is what I am talking about exactly. If we had some long-term agreements or leases from people like that, you could get a lot more done than by having an annual rental agreement, that next year you don't know who is going to be farming that soil.

You are right. That does work. It is a whole lot better.

But, evidently, the returns were not as good or inflation was too high this year, so nothing is going to be done.

But I don't have the answer. I don't know who does. If somebody has it, I wish they would come forward with it.

You all remember the Great Plains program? It is in 10 of our Western States—not fully but parts of 10 States.

It is a good program, a successful program. If we had a program like that initially for the areas that are affected, it might be something to think about.

Mr. McCLOY. We need to work together, like was mentioned a while ago. This person is gone, but Mr. Madigan mentioned his pond might silt shut like his father's had. That brings up the point that it is overall conservation. If he had conservation above his farm, it wouldn't silt in.

When you know the problem, you have half the battle won. I am grateful for that.

We have all realized the problem, so we will come up with something.

Mr. JONES of Tennessee. I think you are exactly right. That is the way I see it.

But I think it is a problem. Everybody that is interested in the land and the generations to follow us simply has to work together on it.

But it is a serious problem, and there is not enough money in the U.S. Treasury to put a program into effect that would make it successful. It has got to be done some other way. Don't you agree?

I don't know how you can ever fund a program like that, that would make it work. We have tried that.

Mr. WILBUR BOWMAN. We really haven't done a job with the present programs, even under the continued pressure of reducing funds, reducing manpower ceilings, and all that.

I am talking about ACP, about the operations of the Soil Conservation Service budget. They have been reduced in the number of people that they could provide to us.

If there was just a significant increase—I was asking for a doubling in Illinois, and that is totally unrealistic when you get right down to brass tax. But if there was a realistic increase of 10 to 20 percent in the manpower ceilings—the people aren't available to fill those positions. If there was an increase 20 or 30 percent in the ACP funds, where years ago we had \$300 or \$400 million, now for—

Mr. JONES of Tennessee. \$500 million at one time.

Mr. WILBUR BOWMAN. OK. We have had \$190 million now for years on end, and that is depleted each year by inflation factors.

We would get a lot of work done.

Mr. JONES of Tennessee. You are absolutely right, and the ACP has done a great job.

Mr. WILBUR BOWMAN. Yes; it has.

Mr. JONES of Tennessee. I must mention this. This subcommittee recommended 250 instead of 190 for ACP. We passed it through the full committee and were successful as far as the Agricultural Committee was concerned.

But we were cut down when we got to the Budget Committee, back down to \$190 million.

I think we got the \$190 million with more ease than we have in any previous year recently. It was just a little bit easier to get.

I guess part of that being the real fact that we have just been farming land a little harder and people realize we need a little bit more help, and we have been getting it.

Of course if we get some money for the Clean Water Act, then we have more money for conservation. The House has not funded that project.

Mr. WILBUR BOWMAN. It is my understanding that it has now been funded, \$50 million.

Mr. JONES of Tennessee. It may be in the last few days. Do you know, Wayne?

Mr. FLETCHER. I think the figure was \$50 million.

Mr. WILBUR BOWMAN. It is being handled through ASCS on a priority basis.

Mr. JONES of Tennessee. I didn't know whether the probation had come to an end or not.

Well, thank you gentlemen. It has been a great day.

I have enjoyed it. Let's just keep on thinking about what we need to do for conservation.

[Additional material submitted follows:]

FERRON, UTAH, October 16, 1979.

Representative Ed JONES,
Chairman, Subcommittee on Conservation and Credit,
Washington, D.C.

DEAR MR. JONES: Please enter my remarks into the hearings you are holding for agriculture.

My son and I operate a small cattle ranch in Utah and it appears that we are about to hang the closed sign on the barn door. One or two good years as far as cattle prices are concerned in every ten years is not good enough.

Between the government opening the gate to imports and Big Business manipulating the price of fat cattle our bank balances are always in the red. Now we must suffer excessive fuel and interest costs with declining cattle prices.

If the consumers of food think their groceries are expensive now, all they will have to do is wait for a few short years and food prices will climb like fuel prices. The few small farmers left are being forced out of business and that is not a healthy situation for agriculture and the American public.

I am suggesting that the report of the Southwest Small Farmers Conference held in Albuquerque, New Mexico, November 1978 and co-sponsored by USDA-Community Services Administration and Four Corners Regional Commission be placed into the hearing record.

Congressman Jones, has the Southwest Small Farmers Conference Regional Report been entered into the hearing? If not, will it be? Please let me know.

I want to testify that the ASCS County Committee system works and if other government agencies would pattern a committee system after ASCS we would have less fraud and more quality input to Washington.

Sincerely,

MERVIN DUNCAN.

U.S. DEPARTMENT OF AGRICULTURE,
AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE,
Springfield, Ill., November 8, 1979.

Hon. Ed JONES,
Chairman, Subcommittee on Conservation and Farm Credit,
House of Representatives, Washington, D.C.

DEAR SIR: I'm sorry that I am unable to be present at your conservation hearing in Champaign this Saturday. Five weeks ago I had the misfortune of falling out of the barn and have been on crutches and confined to my home, because of a knee injury, since this accident.

I strongly believe that there should be more ACP money appropriated in order to carry out the conservation practices so badly needed in rural America, to protect and preserve our natural resources. Each year the requests from farmers in our State for ACP cost share funds far exceeds our State ACP allocation.

I was born and raised on the farm and have been actively engaged in farming all my life. I believe that in my area, as in many areas of our State, one of the best ways to solve a large part of the wind and soil erosion problems would be to place more emphasis on cost share incentive payments for minimum conservation tillage and no-till conservation type practices. I feel this would be the quickest and a very effective way to stop much of our soil and wind erosion. From my observation in our State, the small percentage of farmers now using effective minimum tillage or no-till conservation practices have proven that this type of tillage can practically eliminate many of the major soil and wind erosion problems. Therefore, more cost share funding should be made available for these practices in order to make the incentive more attractive and thereby offsetting the few disadvantages of this type of tillage.

In my opinion, the only logical agency to administer this type of program would be the tried and proven, grass roots ASC committee system. The main reason being that they are the closest to and understand the problems and for the most part, they have erosion problems on their own farms.

You may be interested to know that just recently here in Illinois we held our State AC Program Development meeting and I'm happy to report that the heads of all State and Federal agencies, the Soil and Water Conservation Districts, the farm organizations, and the Land Improvement Contractors were invited and most all were represented. It is very gratifying to the State Committee, State

Executive Director, and our ACP Specialist to see the interest and cooperation shown by these agencies and organizations so far as soil and water conservation is concerned. There was a sincere feeling of cooperation among the agencies involved, working to obtain a common goal: soil and water conservation.

We appreciate all the work and the many hours you have spent in behalf of the ASC Committee system and we offer our sincere thanks.

Very sincerely,

HERMAN V. SCHAEFER,
Chairman, Illinois State ASC Committee.

B. & W. Co-op, Inc.,
Wheeler, Mich., October 17, 1979.

Re H.R. 4782, the proposed amendment to the Farm Credit Act of 1971.

Hon. ED JONES,
*Chairman, House Subcommittee on Conservation and Credit,
House of Representatives, Washington, D.C.*

HONORABLE JONES: It will be impossible for me to be in attendance to present testimony personally on H.R. 4782, the proposed amendment to the Farm Credit Act of 1971. The following written testimony I would appreciate being entered in the record of the hearings.

My name is Ronald W. Stebbins, general manager of the Breckinridge-Wheeler Cooperative, Inc. of Breckinridge and Wheeler, Michigan. This cooperative is Michigan's largest independent cooperative representing 2,500 farmers located through the central part of the lower peninsula of Michigan. This area is primarily a cash crop area with the crops being: dry edible beans, wheat, soybeans, and corn. Our annual sales volume is approximately \$30 million.

The U.S. farmers have large investments in their cooperatives. The 1979 balance sheets of the farming sector shows farmers equity in these farmer-owned businesses were \$13.95 billion at the beginning of 1978, up more than 9 percent from the previous year. The average cooperative investment per farm is \$5,205.

In 1980 U.S. agriculture exports are expected to make a dramatic leap upward with total valuation a record \$35 to \$40 billion and export volume approaching 145 million metric tons. This compares with a value of \$32 billion in 1979 with a volume of 128 million metric tons, according to the August "outlook" from the U.S. Department of Agriculture. When contrasted with agricultural imports foreseen at \$16 to \$19 billion, the agricultural trade surplus could increase about 25 percent to \$20 billion, again a record. The United States will export one-third of its total crop next year.

During the past 20 years U.S. Agricultural exports have increased 600 percent. Almost half of the increase has been since 1966 to 1970. Despite this dramatic growth, farmer cooperatives have grown only gradually in the percentage of products they are exporting. In 1976 seventy-three cooperatives directly exported agricultural commodities valued at more than \$2 billion. This amounted to 9.2 percent of the total agricultural exports. In grain exports, regional cooperatives directly exported 9.3 percent of the total U.S. grain reported during the three years ending fiscal 1977. The percentage of grain controlled through cooperative export elevators has grown gradually in the past four years from 57 to 59 percent. The profitability drive from exports has given American farmers a strong incentive to become more actively involved in selling and shipping to foreign buyers. For many farmers the efficient and profitable way to market farm products overseas is through their agricultural cooperatives. The proportion of export sales of farm products being handled by cooperatives has gradually grown in response to this request.

Today approximately 90 percent of the U.S. farm exports are controlled by half a dozen large international trading companies. Cooperatives are being asked by their members to compete for a share of this international market. Farmer owned cooperatives are increasing their share of the loading facilities at U.S. ports. In the past few years, cooperatives have doubled their export loadout capacity to nearly 20 percent of all U.S. capacity. In the 7th district of the farm credit system, cooperatives own 23 percent of the port terminal capacity on the Great Lakes. In addition to expanding these Great Lakes facilities other cooperatives ventures to increase port capacity had been the acquisition of export elevators in such important areas as: Galveston and Philadelphia. Expansion of port

facilities is consistent with the economic importance of the local cooperative elevators at the farmer level all across the country. American farmers sell more than 44 percent of their grain in local cooperative elevators. More than 23 percent of the regional marketing of grain is handled by cooperatives' elevator terminals. Local cooperatives are the mainstay in the U.S. agricultural economy and are the simplest, most direct means to get the profits made from export sales directly back to the farms. For the most part, American cooperatives export only the products their owner members have produced ; therefore, products are handled minimum number of times and retain high quality through the storage and shipment stages. Now surprisingly, a number of foreign governments and large foreign cooperatives stress a preference for the quality of products and integrity of the business arrangements offered by farmer owned U.S. cooperatives.

The financial institutions on which cooperatives now rely for assistance in making trade transactions often do not understand cooperatives complicated ownerships structure, patronage distribution and long term marketing contracts. The bank for cooperatives, however, have expertise and understanding of the complicated financial flows and financial statements of these organizations. They understand the seasonal flows of commodity marketing and have a first hand knowledge of the management and financial position of most of the cooperatives in the United States. This gives the bank for cooperatives the unique capabilities to handle financing of cooperatives exports and imports transactions with a minimum amount of risk to all parties. As more and more cooperatives develop export business, it is increasingly evident that financial services must be carefully tailored to their individual requirement to help manage risk.

In the 7th district of the farm credit system eleven cooperatives which are active borrowers of St. Paul Bank of cooperatives are involved directly and indirectly in exporting products of their members. These products include: soy flour and other soybeans products, beet pulp, durum wheat, corn, barley, oats, sunflowers, wild rice, milk powder, cheese, turkey eggs, fluid milk, fat cattle, dry edible beans and frozen fruit. Dollar volume of direct exports currently exceed \$100 million and indirect exports exceed \$300 million. As the major source of credit for farm cooperatives in the 7th district, the bank for cooperatives has as its major function to assist its cooperative members owners in making sound financial decisions. The bank has a 46 year history of helping manage risk and provide advice on financial structuring and project financing.

The growing tendency of the U.S. economy with the rest of the world is requiring greater coordination between U.S. businesses and those in other countries. U.S. agricultural cooperatives need financing from the bank for cooperatives if they are to participate on an equal footing in the world trade arena. Increasing the percentage of direct exports controlled by farmer cooperatives will provide a competitive yard stick with international trading companies. Increasing foreign exports will help stabilize the dollar. It is a benefit both to the farmers and to the consumers for cooperatives to become more directly involved in international trade. To assist cooperatives in achieving this goal, the bank for cooperatives and their traditional source of credit for farmer owned cooperatives need export financing provision, a proposed amendment as to the farm credit act of 1971.

Thank you.

Sincerely,

RONALD W. STEBBINS,
General Manager.

NEW HOLLAND, ILL.

HON. ED MADIGAN,
*House Agricultural Subcommittee on Conservation and Credit,
House Office Building, Washington, D.C.*

DEAR MR. MADIGAN : Our family would like to thank you for your co-sponsorship of the Farm Credit Act Amendments of 1979, H.R. 4782. We have lived in Logan County all of our lives and our families have all been farmers. Presently, we are farming 1,500 acres of land.

Our families have been associated with the Farm Credit System for many years both through the Federal Land Bank, local elevator co-op, and Farm Supply. Being associated with these organizations, we know the need to make changes in the legislation to make sure the Farm Credit System can serve the needs of today's farmers.

We strongly urge your total support for the entire bill, and I would like to mention the areas that I feel are important and close to me. One of these is the amendment allowing the Banks of Cooperatives to finance export grain transactions. I feel co-ops should become more active in the export market and this amendment will help considerably by allowing cooperatives to expand their services and sales to the overseas market. Since I also market my grain through a co-op elevator, and Illinois is the Number One exporter of grain, it would be beneficial to both myself and all grain producers in Illinois.

The amendment, which would allow the Federal Land Banks to make loans in excess of 85 percent of the appraised value when they are guaranteed by a governmental unit, is also very important. This is important today because Farmers Home Administration is reducing their present joint mortgage program with private lenders. Without this limitation being removed, it will be very difficult for the Federal Land Banks to continue to serve young farmers.

I would like to submit this statement as testimony in support of the Farm Credit Act of 1979 and request that it be made part of the official record. Thank you.

Sincerely yours,

IRWIN CONKLEN.

DECATUR, ILL., October 29, 1979.

HON. ED MADIGAN,
*House Agricultural Subcommittee on Conservation and Credit,
Washington, D.C.*

DEAR MR. MADIGAN: As a farmer and member of the board of directors of the Federal Land Bank Association of Decatur, I wish to express my thanks on behalf of our members borrowers to you for co-sponsoring HR 4782, the Farm Credit Act Amendments of 1979.

I am a third generation farmer, operating 967 acres in Macon and Piatt Counties, Illinois. Much of the land I farm is family owned and I am acutely aware of the problems farm families have in passing land from one generation to the next, with our present tax structure. A strong farmer-owned co-operative credit system is an absolute necessity to credit worthy farm families to help them retain ownership of family farms as well as to help them expand into more efficient operations.

Two points in this legislation that I feel will be vitally important in the future are the provisions allowing Federal Land Banks and Federal Land Bank Associations to pay patronage refunds and allowing for payment of a differential dividend based on the amount of interest paid on the loan.

I also feel that the Federal Land Banks should not be limited to financing 85 percent of land value when the loan is guaranteed by a governmental agency. This limitation makes it very difficult for the Land Banks to be of service to young farmers, and this group has no alternate source of credit to turn to.

I also believe that the provision which allows the Banks for Cooperatives to finance agricultural export transactions is vital for the development and expansion of U.S. farm markets overseas. I believe that Illinois is the number one state in agricultural exports and anything that can be done to expand our overseas markets will directly benefit each producer in this state.

I request that this letter be included in the written testimony and hearings on HR 4782 for the Subcommittee on Conservation Credit of the House Committee on Agriculture.

Sincerely yours,

B. T. DONOVAN, Jr.

HON. ED MADIGAN,
*House Agricultural Subcommittee on Conservation and Credit,
Washington, D.C.*

DEAR MR. MADIGAN: I am Robert Lichty, a farmer and Federal Land Bank borrower from LeRoy, Illinois. Understanding of the different lending cooperatives of the Farm Credit System leads me to believe that HR 4782, Farm Credit Act Amendments of 1979, should be passed as presented.

There seem to be several controversial areas in connection with this proposed legislation. Let me give you my views concerning the items that have raised questions.

It is my belief that the proposal for the Banks for Cooperatives to finance export trade would probably do more for midwest corn and soybean farmers than almost any other item in the bill. Marketing cooperatives deserve and should have access to world markets and it takes a dependable source of credit to finance the function properly.

With reference to loans in excess of 85 percent of the land value by Federal Land Banks, it is my belief that the Federal Land Banks are in the credit business and have a history of making sound decisions in providing for the credit needs of farmers. We all know that some farmers *could not* repay a 50 percent loan and some *could* repay a 150 percent loan. I do not think the Federal Land Banks should be limited to 85 percent where there is a government guarantee for the loan.

It is understood that there are those that want PCAs to make 10 year loans. That appears to be getting into long term financing and the real estate mortgage field. The seven year limit on loan terms that they have now is enough for serving intermediate and short term credit needs of farmers on a sound basis.

Congratulations for co-sponsoring the bill, we farmers in McLean County look to you to do the right thing.

I respectfully request that this letter be filed in the testimony favoring passage of HR 4782.

Sincerely yours,

ROBERT LIGHTY.

DECATUR, ILL., October 30, 1979.

HON. ED MADIGAN,
House Agricultural Subcommittee on Conservation and Credit,
Washington, D.C.

DEAR MR. MADIGAN: Your committee efforts to update the farm credit laws through HR 4782, the Farm Credit Act Amendments of 1979 are to be commended. There are a few statements I would like to make on this legislation and I request that this letter be filed with the written testimony on HR 4782.

My home is four miles west of Decatur, Illinois, in the house which I was born into 58 years ago. My parents and I have properly borrowed money from the Federal Land Bank and the Production Credit Association to support our families. I have served on the Federal Land Bank Association of Decatur board of directors for nine years and also as a Farmers Home Administration committeeman in Macon County for three years. I have observed loans to farm families of diverse equity and need.

I support the removal of the present 85 percent lending limitation when guarantees provided by governmental units are involved. In the past a deserving farm family could buy land with the Federal Land Bank acquiring a first mortgage and Farmers Home Administration complementing the loan with a second mortgage. I understand that Farmers Home Administration is phasing out that type of program and plans to use primarily a guaranteed loan program. In addition to the Federal Land Bank loan limitation of 85 percent of the appraised value, the lendee's financing is further limited by the 5 percent required stock and 1 percent closing fee. This limitation should be increased to a higher level if no and 1 percent fee. This limitation should be increased to a higher level if no secondary mortgage is attached and governmental guarantees exist. We might question the advisability of authorizing loans higher than 85 percent of value. However, we must never forget the maturity of our lending institutions. Their expertise in loan decisions has been well established. The low failure percentage of loans to farm families is indeed a hallmark of American agriculture.

Worldwide marketing has become a vital concern to us in Illinois as producers of grain and livestock products. I would urge you to approve the provision of bill HR 4782 which allows Federal Land Banks and Production Credit Associations to finance processing and marketing activities of bona fide farmers.

I believe the proposal to authorize the Banks for Cooperatives to assist in export financing is a valid one. We should legislate to accommodate foreign

agricultural trade through cooperative organization, private or corporate. Our foreign trade deficit commands no less.

The Farm Credit Act of 1916 brought a new concept of farm credit as technology dawned a new era. This update in our credit laws in these contemporary times should provide farm families further opportunities for financing their farming operations. My statement today is one of my own judgment and conviction.

I wish to thank you for this time and for co-sponsoring this farm credit legislation under H.R. 4782.

Sincerely yours,

JAMES PARISH.

LINCOLN, ILL., October 26, 1979.

Congressman ED MADIGAN,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN MADIGAN: The needs of farmers and farm families continue to change as we move into the '80's. In turn, regulations need to be altered from time to time to allow for these changes.

I want to thank you for cosponsoring bill H.R. 4782, dealing with amendments to the Farm Credit Act of 1971. As we know, the Farm Credit System has been instrumental in supporting agriculture and helping to provide the high level of efficiency that has developed from the farm community.

The removal of the 85 percent lending limitation, which is currently in force, would allow the Federal Land Bank, in situations where the loan is guaranteed by a Federal agency or state government, to serve the needs of certain farmers, such as young farmers, since the recent shift in FmHA's emphasis is from making its own loans to guaranteeing loans by the lenders.

The amendment dealing with financing agricultural export transactions should help to promote U.S. agriculture products abroad. American agriculture's contributions to the balance of payment is of essence in today's economic conditions.

The maturity schedule as now in force for PCA and FLB loans is most adequate, in my opinion. Extending repayment schedules beyond reasonably sound repayment capacities or incurring debt for future generations will not serve for a healthy and viable agricultural community.

These updating amendments will help to provide for the needs of farmer members. They require no public money and this is important in today's inflationary spiral.

I am sending a copy of this letter to Representative Ed Jones for use as testimony in the hearing process for this bill.

Thank you again, Ed, for your help in this area, as well as your other efforts on behalf of your district.

Sincerely,

WILBUR PAULUS.

SAYBROOK, ILL.

Hon. ED MADIGAN,
House Agricultural Subcommittee on Conservation and Credit,
Washington, D.C.

DEAR MR. MADIGAN: I understand that subcommittee hearings on H.R. 4782, the Farm Credit Act Amendments of 1979, will be held in Champaign, Illinois, on November 10th. I don't suppose I will have a chance to testify but there are a few things I would like to say as a farmer. I would appreciate it if this statement could be filed as testimony in support of H.R. 4782.

First, the Federal Land Banks do a good job with credit and I can see no problem in letting them make loans over 85 percent of the appraised value of the land when government guarantees exist. Federal Land Banks do not lend a man more than he should have and deserves.

Second, I think the Banks for Cooperatives should be able to do more to finance exports. This is one of the bright spots in the whole farm picture. Anything Congress can do to ease the way for exports will do more farmers more good quicker than anything.

It seems that there are many different interest groups wanting their own little thing added or taken away from this bill; it may not be perfect, but it is far better than that which we will get if we start amending it. Just pass it the way it is.

I really appreciate your sponsorship of the bill and thank you for this opportunity to express my views on it since I believe it will help farmers.

Very truly yours,

HERMAN WARSAW.

PRAIRIE COMMODITIES, INC.,
East Bernard, Tex., October 18, 1979.

Re Farm Credit Act Amendments of 1979.

Mr. JACK HUGHES,
Texas Bank for Cooperatives,
Houston, Tex.

DEAR MR. HUGHES: I have noticed there is legislation in Congress that would amend the Farm Credit Act of 1971. The Board of Directors of American Rice, Inc. (ARI) recently passed a resolution urging the enactment of these amendments. ARI is a regional rice marketing cooperative, chartered in 1969 with 1,700 members doing \$210,000,000 rice sales in 1978. I serve as chairman of the Board Committee on Finance and Administration.

Following are some of the reasons I join the Board of Directors of ARI in support of these amendments:

It is generally understood the American (U.S.) farmer has long since solved the nation's food needs. He has enabled our government to make vast amounts of food available to the world's hungry people. And today, farm exports are the most significant export earner of dollars and makes a massive contribution to our balance of trade. The thing that we still do best is the producing of food.

Two factors that have enabled U.S. farmers to perform so well, in addition to favorable soils and climate, have been the availability of farm financing at all three levels (long term involving land financing, crop production loans and financing for our cooperatives), and the best (and perhaps only) farmer cooperative marketing network in the world.

And this is why these amendments are so important, both to ARI and to me as an individual farmer. ARI exports, mostly to the Mid-East, approximately 75 percent of our total production. ARI now uses a sizable line of credit from the Texas Bank for Cooperatives. However, in completing the overseas sales, this financing has to terminate at dockside. It would certainly be useful if our same lender were allowed to extend this same line of credit on the same rice to the overseas buyer.

ARI receives our rice upstream from locally and farmer owned rice dryers and storage facilities. Much of the processing and marketing at the local level can be better financed if these amendments pass. Therefore, this legislation has the advantage and distinction of serving both the financing and marketing of our crops. It will make a material contribution to U.S. agriculture.

ARI is currently taking preliminary steps to market soybeans from the Gulf Coast of Louisiana and Texas. All soybeans grown in this region enter the export market. This program will make cooperative export financing even more important.

Sincerely,

JAY ANDERSON.

ROSCOE, TEX., October 4, 1979.

Mr. JACK HUGHES,
President, Texas Bank for Cooperatives,
Houston, Tex.

DEAR MR. HUGHES: I wish to express my desire to you that you give favorable consideration to the export financing of commodity sales from cooperatives by the Banks for Cooperatives.

The Farm Credit Banks have performed significantly in agriculture financing. Their programs for farmers and ranchers to purchase land and equipment and to provide operating monies have strengthened the credit of the agricultural community. The same benefit has been provided to the local and regional cooperatives.

I believe they could gear up to do just as well in the interim financing of our farm export sales.

We are, in fact, producing for a world market and it is important that we, as local producers, in starting our sales and marketing with local cooperatives, have a continuous line of credit to get our products to the consumer in the U.S. or abroad by export sales.

Sincerely,

J. B. COOPER, Jr.

AMERICAN COTTON GROWERS,
Lubbock, Tex., September 27, 1979.

Mr. JACK HUGHES, *President,*
Texas Bank for Cooperatives,
Houston, Tex.

DEAR JACK: President L. C. Unfred asked me to write and inform you of our support, as well as Plains Cotton Cooperative Association's, of the Federal Farm Credit legislation that has been introduced, especially in the area dealing with export financing.

The 2,000 members in ACG, and the 24,000 members in PCCA—as well as much of American's agricultural complex—rely on exports as a major outlet.

Export sales are in the best interests of not only farmers but others as well—consumers, job holders and our economic system that must depend on sales to foreign lands to help improve our balance of payments. These sales are also beneficial to world economic development and the maintenance of peace itself.

Exports help the U.S. farm industry feed and clothe our populace at the lowest possible cost, and help keep this country's agriculture strong and functioning at efficient, fully productive levels.

We must have exports to survive in the cotton business. Oftentimes 75 percent or more of our Texas crop must be exported.

Whatever can be done to improve our export position in world markets will be of tremendous benefit to the agricultural industry and the country as a whole.

Sincerely yours,

VERN F. HIGLEY,
Corporate Secretary.

AUBREY, TEX., September 26, 1979.

CONGRESSIONAL AFFAIRS DIVISION,
Farm Credit Administration,
Washington, D.C.

DEAR SIR: As a farmer and member of a local cooperative I am interested in seeing the Farm Credit Act amendments of 1979 become law.

First, I would like to say I am more interested in the proposal to authorize Banks for Cooperatives to finance agricultural export transactions because of the direct benefit I and other members of local cooperatives would receive from this.

Members of cooperatives have done a real good job of producing and processing their products and they would like for their marketing cooperatives to be able to participate in the export market through financing from their Farm Credit lender.

The export market provides a major outlet for U.S. farm production. It is estimated that one out of every three acres of production is sold to foreign markets. Not to be overlooked is the fact that farm products produced an agricultural trade surplus of 14.6 billion. This trade surplus helped to offset 46.8 billion of nonagricultural trade.

We farmers who are members of our cooperatives would like a larger and more direct role in selling our products to foreign countries. We are aware of the importance of international markets and prices to our markets and prices here at home.

We also feel that profits are being made on these agricultural products that are being exported. Any added profit that a farmer may receive for his products will be helpful in this time of inflation and high production costs.

Another point to be made in favor of this legislation is that it will not cost taxpayers any money. This is self-help or permissive legislation to those who belong to cooperatives and borrow from their Bank for Cooperatives.

In closing I might add that cooperatives are calling on their Banks for Cooperatives to provide these export banking services to speed up their export operations. The Banks for Cooperatives are prepared to meet these needs of their owners within the recommended amendments to the Farm Credit Act. Studies have been made and plans carefully developed to these services that are especially tailored for cooperative exports.

Thank you,

EMORY KNAPP.

AMERICAN COTTON GROWERS,
Crosbyton, Tex., September 27, 1979.

CONGRESSIONAL AFFAIRS DIVISION,
Farm Credit Administration,
Washington, D.C.

GENTLEMEN: I am T. W. Stockton, President of the Board of Directors of American Cotton Growers, Crosbyton Gin Division, Crosbyton, Texas. I have served in this capacity for the last sixteen years. My principle source of income is from agriculture. A very valued part of my income is from my cooperative.

During my farming career the agricultural exports of the United States has increased over six hundred percent, and as the world becomes smaller and distances become shorter, because of mode of transportation, the role of the American farmer is of greater importance in the future to produce and export food for the hungry world.

Seventy percent of the coarse grains traded in the world today originates from a country that has only five and one third percent of the total population, the United States of America. By the year 2015 the world population will be doubled and the demand for food and fiber grown by the American farmer will be unprecedented in the history of the world. If we are going to meet this world demand, our distribution system must grow equally as fast as world population.

Never before in the history of America has this nation been so rich and the producer of food and fiber so poor. The American farmer must be allowed to improve production and increase his scope of operations that would allow more of the dollars earned from agricultural commodities be return to the farm level.

The farm credit system and the farm credit administration have demonstrated efficiency in farm credit for a number of years and is the avenue to channel our farmer participation in the world market. The farmers margin of profit per unit produced must be maintained at the highest possible level for a stable agricultural industry in the U.S., and to assist in regaining a favorable balance of trade.

The farm credit act amendment of 1979 is a big step in this direction.

A step in the direction to help feed the hungry world of tomorrow.

A step in the direction of improving production of tomorrow.

A step in the direction of allowing the American farmer to pull himself up from the many problems of yesterday and improve the tomorrows.

A step in the direction of preserving peace. It has been said, "We can share our thoughts, ideas, progress, prosperity and our food with the world or we will exchange our bullets."

Sincerely,

T. W. STOCKTON, President.

STATEMENT OF CHARLES EHLE, FARMER, CHAMPAIGN COUNTY, ILL.

Mr. Chairman and members of the Committee, my name is Charles Ehler, and I am a farmer in Champaign County, Illinois. I am engaged in the production of food and fiber for the people of the United States and foreign countries. It gives me a great deal of pleasure to be able to present a written statement for inclusion in the Hearing on the Farm Credit Act Amendments of 1979, HR 4782, being held in Champaign, Illinois on November 10, 1979.

I am vitally interested in these amendments to the 1971 Farm Credit Act. However, I wish to expand on several specific items. I strongly support Section 106 of this Bill, which removes the present 85 percent of appraised value limitation on real estate loans guaranteed by a Federal or State governmental agency. The Land Bank is the only lender I know with such a limitation, yet

it finances more farm loans than any other lender. The removal of the 85 percent limitation where there are government guarantees would not only help deserving young farmers but would benefit the consuming public by helping to assure the continuance of the family farm.

I also strongly support the Export Financing provision of the proposed amendment. Farmers, through their cooperatives, should be able to promote the expansion of export markets and to share in the benefits gained. Illinois farmers are number one in the nation in grain exports, yet the marketing of their grain is largely in the hands of large, privately owned export concerns. I feel it would be prudent for farmers to be able to bypass these concerns and deal directly with foreign markets through the use of farmer owned and farmer controlled co-operatives, financed by the Banks for Cooperatives.

It is my understanding from reading about previous hearings on this legislation that there are some who have recommended a change in loan maturities being offered. My experience and visits with others using all services of the Farm Credit system cause me to be grateful for what we have in this regard and accordingly to recommend no changes in the maturities in any of the loan programs offered.

I am thankful for the Farm Credit system, the type of loans, the length of loans, the services offered and the credit counseling available. However, the services offered must be constantly reviewed and revised to keep abreast of the rapid changes in agriculture and the needs of farmers and farm families. Your committee can help farmers throughout this country by recommending the passage of all items in HR 4782.

STATEMENT OF EARL R. SWANSON, PROFESSOR, DEPARTMENT OF AGRICULTURAL ECONOMICS, UNIVERSITY OF ILLINOIS, URBANA, ILL.

PRIVATE ECONOMIC INCENTIVES FOR CONTROL OF SOIL EROSION

There are two forces that currently focus on the soil as a resource. First, there is the need to maintain productivity. This need stems from our concern about whether land-saving technology will be generated and adopted at a rate fast enough to meet our future food and fiber needs in the face of reductions in the stock of agricultural land. A second force behind the current interest in soil conservation is found in environmental quality considerations, mostly related to water quality.

In this paper two features of the soil conservation problem are developed. First, there is evidence that the private economic incentive for a substantial reduction in soil erosion is, in general, rather weak. Second, there is a wide variation from watershed to watershed in the consequences of soil erosion, in terms of both productivity and environmental quality.

In order to assess the private economic incentive it is necessary to know the impact of soil loss on crop yields. Observations of increasing yield trends due to improved crop technology tend to mask the declines that would otherwise have taken place due to soil erosion. However, after the surface layer of the soil has been eroded, it becomes difficult, if not impossible to apply known technology to restore crop yields. At that point the damage to the soil for crop production is apparent. Thus soil losses may occur for a long period of time before there are noticeable yield losses.

Adoption of soil conservation farming practices in response to economic incentives depends very much on the length of time for which the farmer plans. Evidence on several important soil types in Illinois indicates that the cost of yield losses over a 50-year period into the future not likely to be great enough to induce the farmer to reduce the present rate of soil loss to the soil loss tolerance levels recommended by the Soil Conservation Service (4 and 5).

Six watersheds were studied in Illinois in 1972-73 (1, 2, and 3). In the watershed with the most severe erosion, soil losses were approximately 10 times the tolerance levels suggested by the Soil Conservation Service (2). Yet, an adequate soil conservation plan for 20 years into the future, would increase net farm income by only about one percent (2, Table 10).

A study of five watersheds in Texas also shows a pattern of rather weak private economic incentives for soil conservation (6). Planning periods of 10, 100, and 200 years into the future were considered in the Texas study. Conservation

practices that were not profitable with the 10-year plan often became profitable as the period of the plan extended to 100 years. Given the uncertainty of the future it is only natural that farmers take a rather myopic view and do not find that soil conservation competes well with other more profitable investments that can be made in the farm business.

We now turn to the impact of soil erosion on environmental quality. This will be discussed in terms of the damage done by sediment after the eroded soil leaves the farm. In both the Illinois and Texas watershed studies sediment damage showed considerable variation among watersheds. For example, in Texas the sediment damage in dollars per acre was nearly twice as high in the Lake Lavon watershed as in the Duck Creek watershed (6, p. 46). Variability in sediment damage among watersheds is also noted in the Illinois studies. In the Hambaugh-Martin watershed in western Illinois with a conventional tillage system and a corn-soybean rotation, sediment damage per acre is nearly 6 times greater than with the same system in the Upper Embarras River basin in eastern Illinois (2, Table 10 and 3, Table 12). Finally, there is no clearcut general relation between the extent of the impairment of long-term productivity and the sediment damage. Watersheds with high sediment damage from soil loss may suffer minimal productivity losses and vice versa.

What are the policy implications of the weak economic incentives to conserve soil? Educational programs which provide only information for decisions to be made in terms of the economic self-interest of farmers are not likely to be adequate—other policy instruments must be employed. One of these instruments should be the development of a conservation ethic based on an articulation of the short-term and long-term consequences of soil erosion. The effectiveness of programs designed to develop and strengthen such an ethic will need to take into account the extreme variability among watersheds in the consequences of soil erosion. The tailoring of information programs to the long-term consequences of erosion in the local situation is a critical ingredient in improving the perceptions of farmers and inducing increased adoption of soil conservation methods.

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STATEMENT OF TEXAS CITRUS EXCHANGE, MISSION, TEX.

The Texas Citrus Exchange is a federated citrus marketing cooperative which handles approximately 40 percent of the citrus production in the State of Texas. Exchange members include four cooperative packing associations owned by about 1,500 growers. In addition, the Texas Citrus Exchange owns and operates two citrus processing plants. The Exchange markets fresh oranges and grapefruit, bulk citrus concentrate, single-strength juice and cattle feed made from citrus peel.

Members of the Exchange have faced increasing crops over the years and out of need to expand its markets, began exporting fresh grapefruit, grapefruit juice and cattle feed in the mid 1970's. Currently about 20 percent of the fresh grapefruit, 20 percent of the grapefruit juice and nearly 95 percent of our cattle feed is exported.

The Exchange has made a considerable investment in time, travel and manpower in developing its export business. This investment has resulted in assisting growers to not only move their crops more rapidly and efficiently, but in the process has made a significant impact on domestic demand. Therefore, we intend to continue our efforts to maintain and expand our exports whenever and wherever possible.

There are certain problems associated with the export business that need to be overcome in order to facilitate more export volume. Most of these problems are related to export documentation, credit and collections. In those instances where our customers have established a sound payment record and we have put them on an open account, no major collection problems exist. Nor are there problems in those instances where the customer buys on an F.O.B. basis. Our difficulties arise out of those occasions where we begin to develop sales among new customers and in nations that have different customs and trade practices.

The Middle East is a case in point. Its newness as a market area, its distance, its unique customs and its instability requires caution, and in our opinion, the use of letters of credit. Letters of credit for the new exporter can be a source of time consuming frustration unless the very utmost attention is given to the condition specified in the document. So often, conditions are requested by the customer that seem to purposely hamper the ultimate collection of the money owed. Personnel in the corresponding banks seldom show any sense of urgency in completing paper work. At the moment we are on the brink of losing a new account in Saudi Arabia because of a delay in receipt of documents. The ship carrying our goods reached the foreign port before the documents arrived which will mean that the shipment cannot be released to the customer.

This is not a rare or unique problem. We have experienced similar problems in dealing with the government buying agency in Czechoslovakia; however, letters of credit were not involved because it was not their policy to use them. The problem was related to the very slow pay experience, the red tape, the language and business customs that we had to attempt to pioneer on our own.

A solution to these problems would be to expand the services of the Bank for Cooperatives to include export services. American agriculture has only begun to tap its potential in international trade but many small cooperatives will never take the necessary steps to deal with the intricacies of foreign trade or will those who have started stay with it if a solution to the many frustrations is not found. Agricultural cooperatives need an organization they have confidence in, one that they consider to be on their team and one that will make the job of exporting simpler and more profitable.

The Texas Citrus Exchange supports Farm Credit legislation that will allow the Banks for Cooperatives to expand its services to include export services.

STATEMENT OF JOSEPH E. WHALEN, BRYANWOOD FARMS, PENFIELD, ILL.

My name is Joseph E. Whalen. I am a farmer and a borrower of the Federal Land Bank Association of Champaign-Charleston, Illinois. I also currently serve as a director of this association. I therefore am presenting this statement on HR 4782, the Farm Credit Act Amendments of 1979, after many years of direct experience with the Farm Credit system.

I firmly endorse all the amendments offered under this legislation and believe that all are essential to the furtherance of the system and the improvement of the 1971 Farm Credit Act. I would like to emphasize that the farmer owned system has no tax money in it, not even for the cost of supervision; that no Federal funds are loaned and that this legislation will in no way expand the authority of the Farm Credit institutions to offer credit related services.

An important item in the legislation is the granting of authority to the Land Banks to finance processing and marketing activities of eligible applicants and bona fide producers. I believe that Congress recognizes that farmers have a need for credit beyond their production requirements, in order that they can erect efficient processing and marketing facilities.

This would often require that the farmer purchase the products from other producers in order to market a finished product. A farmer should be allowed to operate his own marketing system and still borrow from the Farm Credit system for this purpose since the entire process is directly related to agricultural production. At the present time, a farmer must seek the necessary credit from an additional lender, which leads to split financing which is often not in his best interest. The District Boards of Directors would be authorized to fix specific limits on the authorities of Land Banks and Production Credit Associations to finance processing and marketing activities.

I believe the removal of the 85 percent limit of appraised value on Land Bank loans guaranteed by a Federal or State agency is necessary. The Farm Credit system is the only financial institution with the 85 percent ceiling limit imposed on them. It is very important that a means be allowed for the financing of top young farmers with limited assets yet have the cash flow to repay a higher percentage loan. I am familiar with the loans that Land Banks have made with Farmers Home Administration in the joint loan program during the past several years. These loans have worked out well for everyone concerned.

The Farm Credit system has given 62 years of excellent service to the agricultural community, and the loans offered, the maturities and the availability of funds in good and bad times are of extreme importance to farmers and farm families. We are indeed fortunate that the loan maturities authorized by law are sufficient for each part of the system to best serve farmers.

Times change and laws must be amended and revised to keep pace with new and increasing agricultural credit demands on the Farm Credit system. Accordingly, I urge that you support the passage of HR 4782.

Statement of
 Jack W. Barnes
 General Manager, Michigan Milk Producers Association
 on behalf of the
 St. Paul Bank for Cooperatives, Seventh District

My name is Jack W. Barnes. I am general manager of Michigan Milk Producers Association, 24270 West Seven Mile Road, Detroit, Michigan 48219. I have been employed by this cooperative since 1946 and have served as its general manager since January 1, 1959.

Michigan Milk Producers Association (MMPA) is a dairy farmers full service marketing cooperative. At the close of our fiscal year September 30, 1978, MMPA had a total membership of 5,475 dairy farmer members on 4,481 farms--most of which are in Michigan but with some in Ohio, Indiana and Wisconsin. During that fiscal year we marketed over 2.8 billion pounds of milk with a value exceeding \$280 million.

Certainly, agriculture is one of the real strengths of America. Our agricultural system is the envy of the entire world, and it is in the best interest of the public to maintain that strength and efficiency.

Cooperatives are a vital part of our agricultural system. In Michigan, agriculture is the second leading industry--being exceeded only by the automobile industry--and dairy farming is the leading contributor to Michigan's agricultural income.

My experience with the Farm Credit System has been with the St. Paul Bank for Cooperatives, which has been a major source of credit during my entire tenure as manager of this cooperative; and in recent

years, it has become our only source of outside credit. The St. Paul Bank for Cooperatives not only is our source of credit, but also has given us invaluable service in financial counseling and guidance.

In 1974, MMPA experienced a major financial crisis because of the financial failure of a large dairy in Detroit. This failure jeopardized the stability and even the continued existence of the cooperative. There simply would have been nowhere else to turn other than the Bank for Cooperatives--our position was not "bankable" through regular commercial banking channels. The St. Paul Bank for Cooperatives did commit the necessary funds and, more importantly, pledged their support through the crisis. This support and the subsequent assistance, counseling and advice were crucial. Had it not been for the cooperative bank system, MMPA would have survived, but at great hardship to its individual dairy farmer members.

We support the proposed legislation to amend the Farm Credit Act and urge favorable consideration of H.R. 4782, the Farm Credit Act Amendments of 1979, by the Subcommittee on Conservation and Credit, by the House Committee on Agriculture and passage by the House of Representatives.

It might appear that the amendments proposed to the Farm Credit Act of 1971 are of little consequence to our cooperative. However,

nearly all of our members are also members of one or more other cooperatives, including farm supply, petroleum and rural electric. It is in the interests of these members and in support of the greater objective of maintaining an efficient, viable, agricultural producing system that we strongly support the proposed legislation.

The Farm Credit Act of 1971 requires cooperatives to have at least 80 percent of their voting control in the hands of farmers, except that utility cooperatives may have 70 percent. The Farm Credit Act Amendments of 1979, H.R. 4782, would change the voting control to 60 percent or such higher percent as may be established by a district board of directors. There have been many changes in rural America during the past decade. It now has many nonfarm residents who depend upon the local farm supply, the petroleum and/or the rural electric cooperatives. This proposed amendment would recognize the realities of a changed rural America, would enable those cooperatives to continue their relationship with the Banks for Cooperatives, and assume that control would remain with the farmers.

Another amendment within the proposed legislation would enable the cooperative bank system to meet the needs of farmer cooperatives involved in foreign trade. U.S. agricultural exports are expected to continue their upward trend and reach \$35 to \$40 billion in 1980. On the other hand, total agricultural imports are forecast at \$16 to \$19

billion, leaving an agricultural trade surplus of approximately \$20 billion.

After our own domestic needs are met, we will be exporting one-third of our total farm output next year. This export volume is crucial to the United States and to all its citizens.

Many farmers are insisting that their cooperatives, upon which they depend for marketing, compete for a share of the international market in which presently approximately 90 percent of U.S. farm exports are controlled by very few large international trading companies. Local cooperatives are the backbone in the U.S. agricultural economy and are the simplest, most direct means to get the profits made from export sales directly back to farmers. The legislation proposed in H.R. 4782, The Farm Credit Act Amendments of 1979, would authorize the Banks for Cooperatives to extend their services and their expertise into the complicated arena of international trade.

These amendments are needed to keep the Banks for Cooperatives attuned to present agriculture conditions and to enable them to meet the needs of the cooperatives serving it.

We thank you for the opportunity to present our views. On behalf of the members of MMPA, I strongly urge favorable consideration of H.R. 4782, The Farm Credit Act Amendments of 1979.

STATEMENT OF
GERALD BOERBOOM
ON BEHALF OF THE
PRODUCTION CREDIT ASSOCIATION OF MARSHALL, MINNESOTA

Chairman, - Members of the Committee,

I am Gerald Boerboom of Marshall, Minnesota. I am a farmer, a PCA Member and a Director of the Production Credit Association of Marshall. Our area of Southwestern Minnesota is very diversified. Our farmers deal with corn, soybeans, small grains, feeder livestock, stock cows, hogs, sunflowers, dairy, chickens, and a few other specialized areas.

As I understand it, the present amendment before the committee deals, in part, with the processing and marketing activities of farmers and their eligibility to be financed by the Farm Credit System. In spite of the diversification of our area, we presently have a limited amount of activity in processing and marketing. I can, however, see this option becoming much more important to our area farmers in the near future. The energy crisis immediately comes to mind. With the world turmoil that exists today, especially within the oil producing nations, the use of alcohol to help meet our energy needs and the fuel needs of the farmer may become vital and urgent. I would strongly encourage the financing by Production Credit Association's of processing and marketing activities of bona fide farmers. This would offer farm families greater opportunities to succeed and make it practical for them to use the same techniques non-farmers utilize. The execution and overseeing of this type of financing by the various farm credit districts is crucial and they must, as they so capably have in the past, keep in view the needs of those they serve, the farmers.

Testimony has also been presented before this committee regarding the sale by Production Credit Association's of Farm Property Insurance to its members on an optional basis.

I am a farmer of today. I must exercise great care in executing my management decisions to be a successful farmer. The seed that I use must be what is right for the type of soil on my farm and the length of growing season in our area. The fertilizer and chemical that I use must be chosen with care and must work. If my seed, fertilizer, and chemical do not work one year, I am very hesitant about using it again. The type and amount of insurance that I choose is an important part of my management decisions. I will shop around and buy what I feel will best serve the purpose that I deem necessary. If the Production Credit Association is able to offer farm property insurance to their members, I will be very receptive to their plan and to the amount of coverage we decide is adequate for my farm operation, but I reserve my right to choose where to purchase insurance. The loan officers at the PCA know the total picture of my farm. They know the current values of items on my farm. With the inflation rate what it is today, one must keep up with all the new changes in prices and the values of used machinery and buildings. The loan officers deal with these items every day and with many diversified farming operations. They know the current values.

We are very fortunate in our area to have many good independent insurance agents. They offer insurance of all types to everyone in all occupations. Our Production Credit Association offering collateral insurance in our area will not greatly affect the livelihood of these agents. In fact, if the PCA's are able to offer collateral insurance, the consumer, whether PCA member or not, should be the one to benefit. The pricing should become more competitive and the service to farmers by all agents should be enhanced.

In September of 1978, a random survey of PCA members was conducted by the St. Paul FICB. It revealed that 214 of 231 farmers considered it desirable for PCA's to offer farm property insurance to their members on an optional basis. Also revealed was that 138 of 230 believed their present insurance to be adequate; however, in a random in-depth study conducted by the FICB of St. Paul, with the help of farm property insurance specialists, it was shown that the majority of those studied were less than adequately insured and a physical appraisal of their property by the insurance agent occurred on a very sporadic basis.

One of my great concerns is the young farmer. To start farming today the young farmer needs to have as much going for him as possible. He needs the advice of many and the ability to take from this advice that which he feels will work for him and is important to his farming operation. When

a young farmer is starting out, there are very few that are truly aware of the overall picture of the young farmer's operation. The Lender to this young farmer knows his situation better than anyone. To be able to discuss with this young farmer the options available to him and the things that have proven important to a young farmer staying in business, are very important. Insurance is a part of the management decisions that he needs to make. It should not be put off or neglected at this point in his career. If the Lender he has chosen is a Production Credit Association, the PCA can present a credit life plan, credit disability plan, and a crop hail plan. The young farmer is aware of the coverage his Lender feels would best serve his needs but is free to purchase insurance where he chooses. Farm property insurance is as important as any of the above and, many will say, more important. Significant consideration is given by the young farmer, and established farmers, to the possibility of convenient, one stop service by qualified people at their local PCA office.

The Farm Credit System insurance programs should be judged on the benefit they offer to the farmer/member of the System. To deny farmers this benefit is contrary to the whole "self help" farmer cooperative philosophy which has longstanding congressional support.

Thank you for allowing me to have some input into this hearing. If you have any questions, I will be happy to respond to them.

Gerald Boerboom

Rt. # 3 Box #225

Marshall, Minnesota 56258

STATEMENT OF
HERMAN F. DANEKAS, FARMER
ON BEHALF OF
BLACKHAWK PRODUCTION CREDIT ASSOCIATION
FREEPORT, ILLINOIS

Representative Madigan and members of the subcommittee:

I am Herman Danekas, a farmer from Monroe Center, Illinois, in the north-western part of the state of Illinois. I am the past president of the Ogle County Farm Bureau of which I have been a member for many years. I am also a member of the Blackhawk Production Credit Association Advisory Committee.

I appreciate this opportunity to present my own personal view as a farmer on the Farm Credit Act Amendment of 1979 as well as the views of several of my neighbors and farm friends, some of whom are in the audience.

At this time I would like to present letters of testimony written by farmers in my area including a copy of a letter written to Congressman John B. Anderson concerning this farm legislation.

There has been much discussion and testimony over this bill, therefore, I would like to just point out areas of vital concern to me as a farmer.

We all realize that agriculture is dependent upon exports. What we seem to overlook is that each individual farmer is largely dependent on exports to maintain a price for his product that will allow him to maintain an adequate profit margin. The price of corn in our area for fall delivery of 1979 has varied between \$3.00 plus to slightly over \$2.20 during this marketing season. The price of soybeans has varied from \$7.81 to \$5.76. The higher prices are profitable levels for a present day efficient farmer. At the same time the lower level of prices are not satisfactory for even the most efficient farmer in today's economy. When you really look at this thing, it is not enough to insure that we have agriculture exports to move our grain. We must also insure that the farmer gets his fair share of the profit generated from agricultural exports.

It would only seem logical that if farm cooperatives were allowed to compete with other grain industries in agricultural exports, they would also be more competitive at the original source of purchase from the farmer. Presently the bulk of the grain handled by cooperatives must end up in the hands of a few large commercial exporters, which are primarily foreign based concerns. Following this procedure does not allow the cooperatives to insure that they are able to pay maximum prices or operate on the lowest margins possible since they are not able to take the sale of the raw product purchased from farmers to the final purchaser in the foreign countries.

It appears to me that our cooperatives should be authorized to handle this procedure as well as finance the exports since it would be impractical if not impossible for local cooperatives to borrow for operating funds, purchase of grain and etc., through the Bank of Cooperatives and then try to finance loans covering exports sales through another lender.

I would also like to address the portion of the bill concerning expanding the authority of the PCAs and Federal Land Banks to finance processing and marketing activities which are directly related to an agriculture producer's operation. I as well as many other farmers in our area are concerned about the problem of the starting young farmer as well as the continued efficiency of the total farming community. It appears that the farmer should be allowed to become as efficient as possible and if that included expansion of processing or marketing activities that could be financed on a reasonable basis, it would appear that the farmer should be allowed to do so. It is unrealistic to say that a farmer can utilize his assets to his best advantage if he is forced to finance one segment of his business with one lender and then try to finance another segment with another lender.

This usually results in, we as farmers not having a clear understanding of our actual position with each lender as well as the individual lenders not fully understanding our total operation.

In regard to insurance, my position is simply this - if we are going to limit cooperatives ability to provide competition in beneficial services such as insurance where will we stop in the future?

I personally put my insurance business up for bids. Some of it is written with independent insurance agents, some is written with Country Companies and some is written with Blackhawk Production Credit Association. I have spoken with many farmers in my area and have attended a state hearing this spring concerning this issue. While I am not naive enough to think that there wouldn't be anyone who would complain about the insurance offered by the Production Credit System, to this date I have not heard one. I feel that if PCA's Board of Directors feels that it can provide its members better service by writing insurance or providing additional services on a sound basis, that they should be allowed to do so. I know from personal experience that PCA farmer board members are very capable of, and will insure, that PCA represents the best interest of the farmers in their territory. Therefore, I would urge you to pass this bill which will enable the Farm Credit System to continue to meet our (farmers') needs.

If you have any questions concerning my testimony or the letters introduced with my testimony, I will be happy to try to answer them. Thank you.

A handwritten signature in cursive script, appearing to read "Herman H. H. H.", written in dark ink.

(Attachments are held in the committee files.)

STATEMENT OF
HAROLD C. POWELL
FARMER - DIRECTOR OF PCA OF LANSING

Mr. Chairman, my name is Harold Powell, director and farmer, from Williamston, Michigan. I consider it a distinct honor to represent the farmer-members in the Production Credit Association of Lansing and to speak before this Committee, as a farmer, on behalf of the amended Farm Credit Act of 1979 as it's being proposed.

As stated, I am a director and Board Chairman of the PCA of Lansing, which serves an eight and a half county area in Central Michigan with over 2400 members with over \$83 million in volume. I have been a director of the Lansing Association since 1965 and a member-borrower since the early 1960s. I have farmed in the Williamston area in Ingham County all my life, presently in partnership with my son, John, on a dairy and cash crop farm. I would like to testify today in support of Senate Bill 1465, the Farm Credit Act Amendments of 1979, both as a farmer and as a director.

I would specifically like to speak in support of the authority for the Farm Credit System to continue to offer collateral insurance and the need for the financing of the System of processing and marketing enterprises.

We understand that there is pressure to eliminate the ability to offer collateral insurance by the Farm Credit System. We would like to testify for the need as I see it, of keeping this ability to offer collateral insurance with the Production Credit Associations and in the Farm Credit Act and to testify as to grass roots support for this need.

Our Association, the Production Credit Association of Lansing, cooperated with the Federal Intermediate Credit Bank of St. Paul and the Old Republic Insurance Company in 1978 on a survey of four farmers in regards to farm property insurance. It was found by this survey that in most cases, that the farmers were underinsured and that their policies had not been updated for a number of years. The overall feeling was that PCAs should offer the insurance for the purpose of convenience, cost, servicing ability and to

provide increased competition for other insurance companies, all of which would benefit farmers like myself. The survey included my farm and a comparison to my present insurance. My present insurance has a total dollar value insured of \$171,900, in reviewing this it was determined that the current value that I should have had in coverage should have been \$239,200 or stated another way, I was found to be 28% underinsured.

My loan is reviewed annually with PCA and I feel that, in reviewing the financial picture of my farm, it would be convenient for me to update my insurance policies at the same time, to stay current with increased values due to inflation. Presently, we review the insurance once every ten years with a built in inflation factor contained in this. With inflation continuing as it has been, this has not been nearly enough to keep proper insurance coverage on my facilities and equipment.

We would also offer in testimony that a phone survey was made in 1978 by the Seventh Farm Credit District, randomly, of 265 PCA members, 87% of those surveyed answered the survey and 93% indicated they felt it was desirable for PCAs to offer farm property insurance to their members on an optional basis.

In October of 1979, the Production Credit Association of Lansing, together with Farmbank Services of Denver, Colorado, surveyed our members in two of our counties, Ingham and Eaton Counties, by use of a letter survey to over 900 of our members. The Association received a 30% return using the proper statistical methods as devised by Farmbank Services, asking, among other things, PCA's role in related services.

One question, in particular, we asked them to respond as to their interest if the Association offered farm property insurance. 33% of those responding indicated a very high interest and 39% indicating they were somewhat interested, 22% said not interested at all and 6% offered no opinion. The total of those saying they were very or somewhat interested was 72%, we think this is

significantly high to indicate an interest and a need by our members to offer farm property insurance. We also asked the question of whether they felt pressured by PCA personnel to take related services i.e. services other than credit, to get a loan. 93% said that "no, they did not feel pressured to take related services from their Production Credit Association".

I feel, as a director, this indicates a need for keeping related services, and in particular, farm property insurance services, available for our membership.

Related services add additional income to the Association, allowing the Association to lend at a lower interest rate mark-up than they normally would have to charge, benefiting all our members and myself particularly, as a farmer-borrower of my cooperative.

As a farmer, I feel a personal need for allowing alternatives to be available and that competition can only benefit me as a farmer-borrower.

Regarding Processing and Marketing

My farm is located between Detroit and Lansing, Michigan, particularly close to Lansing, which has a great influence on farm values in my area. Because of this influence, it is becoming increasingly more difficult to obtain additional farm land for farm production purposes. It is with this in mind that I would encourage the provision in the new Farm Credit Act Amendments to expand the availability of the System to finance processing and marketing organizations. This would allow farmers in my area to expand and increase their income potential which will be limited in farm production, by expanding their use of marketing and processing facilities on their farms. With the escalating costs for resources, especially land in my area, it will allow me to intensify the use of this resource by expanding into processing and marketing. This escalating cost of resources, especially land, has caused many farm sons and daughters in our area to leave the family farm.

Expanding into processing and marketing activities, however, would create an additional opportunity for these young people to stay in the family business and to increase the economic potential of these units.

Examples that can be used in the processing and marketing functions, which would affect our area, would be marketing and processing units for washing, grading, sorting and packaging potatoes, carrots and onions. Additional examples would be construction of a sunflower storage and processing operation, opportunities in fruit and vegetable industry providing additional processing and marketing facilities, in the area of seed corn production and processing units and down the road in the very near future, the opportunity for farmers to build alcohol plants either on their own farms or together with other farmers in their area.

In summary, expanding the processing and marketing section of the Farm Credit Act would allow farmers the ability to vertically integrate on their present farms and removing the 50% limit on members own usage and removing this to a lower level allowing district boards and local boards to set this percentage of individual farm usage, would be more realistic in my estimation. It would increase our income as individual farmers, it would be more convenient for me as a farmer-borrower to deal with only one organization rather than making financial arrangements with other institutions. It would allow more flexibility in financing and obtaining my financing. As farmers like myself get larger, we have to use all of our resources to maximize our profits to remain competitive and this is an alternative we would like to have available.

We urge you to pass the Act as presented to strengthen this System for its farmer-members.

I would like to thank you for the opportunity to present these comments as a farmer and as a director. I have a great deal of respect for the

System and the help it has given me personally and the farmers in our area. I would remind you that, while the System started as a government program, it has since paid off all of its government capital and that it has been successful financially, providing funds to farmers on a least cost basis through their PCA farmer-owned cooperative. It has proven to be a sound financial organization, providing farmers financial strength, to tap the world money markets and its related services, including farm property insurance, have helped this and we urge you to leave farm property insurance in the Act and to expand the processing and marketing portion.

I, again, thank you for this opportunity to make this presentation and I would be available to respond to any questions on this presentation if you so desire.

Statement of
Rainier National Bank

Mr. Chairman and members of the Committee, Rainier National Bank wishes to take this opportunity to share with the Committee our comments relating to the issues and provisions of S.1465, a Bill to amend the Farm Credit Act of 1971. These comments result from our extensive experience as the leading agricultural lender in Washington and activity as one of the largest commercial financial institutions in the Pacific Northwest.

We firmly believe that many of the substantive provisions of the proposed amendments would reduce the competition between the Cooperative Farm Credit System (CFCS) and the private sector including the commercial banking system. Such an encroachment by the CFCS into non-farm lending activities provides unneeded discriminatory government activity in an area which has heretofore found two or more types of strong financial institutions bidding vigorously for the credit business of the farmer. We might also suggest that continued expansion of farm credit programs may lead to their regulation by the Federal Reserve Board and other federal bank regulatory agencies.

Rainier National Bank is vitally involved in the farm community, providing approximately \$150,000,000.00 in direct farm support loans to Washington State's largest industry which totals almost \$2.4 billion a year. Rainier participates in a broad spectrum of agricultural financing, from export financing to seasonal

production loans. We feel that these comments reflect experience gained through extensive exposure to the agricultural borrower.

The following comments are limited to those amendments which we believe would reduce competition with the private sector by granting improper special treatment advantages to CFCS member institutions.

1. Cooperative Eligibility. Rainier would support proposed legislation which would reduce from 80% to 60% the requirement that voting members of cooperatives borrowing from Banks for Cooperatives (BCs) be farmers only for cooperatives which have a rural-urban consumer base of operations. For all other coops, namely rural coops as identified in the Act, we feel the existing 80% requirement must be maintained in order to fulfill the original intention of the Act and to minimize conflicts with the regulated commercial banking industry. The amendments should recognize and address that type of "rural-urban" based cooperative which has developed in rural areas through supply stores which provide merchandise, implements, grains and soil treatments for farmers and non-farmers alike.

2. Financing of Processing and Marketing Activities of Bona-Fide Farmers. The amendment proposes to permit Federal Land Bank (FLBs) and Production Credit Association (PCAs) to finance processing and marketing activities for farmers, thereby providing new authority for off-farm businesses. Although

financing needs for processing and marketing are being adequately met through existing services, Rainier would support this amendment provided (1) all partners, stockholders, directors and other individuals processing and marketing farm products are bona-fide farmers and (2) the main purpose of the financing is to enable a farmer to justify an expenditure, the primary purpose of which is to process and market his or their own crops.

If the original intent of the Act, to support the farmer in his production of crops, is to be maintained and actions by the Committee in the farm credit market balanced properly in light of the Committee's obligations to respect the existing commercial banking marketplace, some restrictions are necessary on FLBs and PCAs to define and focus their area of specialized financing. Otherwise, the original intent of creating special land banks and credit associations would be lost and such organizations might very well be abolished.

3. Banks for Cooperatives Export Financing. We see little, if any, basis for this amendment of the Farm Credit Act of 1971. The system is in place to handle all overseas transactions through the commercial banking system. Indeed, the competition for foreign business is intense and vigorous, and we know of no unfilled need in this area which would support the proposed amendment. We urge removal of this unnecessary provision from the proposed legislation.

4. Incorporation of System Service Entities. We

propose that S.1465 which permits the Farm Credit Administration to charter corporations which perform other than credit services for CFCS institutions be more carefully defined to avoid conflict with existing corporation laws and to ensure that such service corporations are only created to specifically support the CFCS institutions.

5. Increase in FLBs 85% Loan Value Lending Limitation.

The proposal to allow FLBs to make real estate loans in excess of 85% of the appraised value of the property securing the loan when the guaranties are provided by government agencies might lead to a damaging situation where a FLB would make loans exceeding 85% of the appraised value which could erode those real estate equities used by commercial banks to support short-term credit vital to the welfare and seasonal production requirements of the farmer.

In summary, we would like to call the Committee's attention to the competitive system in banking services which the Congress has structured over the years leading to a free enterprise marketplace of financial services. Special aid has been rendered to select groups only when an emergency requirement exists or a financial need is not otherwise being met. We have no knowledge of any absence of financial services to the agricultural community which would support the exempt status provisions and non-competitive measures of this legislation.

Thank you.

Statement of
Seattle-First National Bank

Mr. Chairman and members of the Committee, Seattle-First National Bank appreciates this opportunity to submit testimony on several aspects of the amendments proposed (H.R. 4782) to the Farm Credit Act of 1971. We are one of the largest agricultural lenders in the United States, with over 170 branches and an extensive correspondence network. We serve as a major, if not sole, financial institution for many of Washington's smaller communities. As such we have a vested interest in legislation that affects the farming community and its financial needs.

We long have recognized that the Cooperative Farm Credit System (CFCS) provides vital support to the farm community, and we endorse its efforts to remain as a viable source of credit for farm-lending needs. Therefore, Seattle-First does not oppose the "housekeeping" provisions in the proposed legislation which are designed to enable the rapidly-growing CFCS to meet its changing needs.

We are concerned, however, about a few of the amendments which would result in CFCS encroachment into non-farm lending activities. These amendments would result in no substantial gain to the farm community; but, they would injure banks which are already adequately providing financial services to the agricultural industry. Those amendments to which we have specific objections are detailed below.

1. Export Financing

One major amendment to the bill proposes that Banks for Cooperatives (BCs) be authorized to handle the financing and related servicing functions of farmer cooperatives' direct foreign sales of commodities, or purchases from foreign sources of items needed to conduct their own cooperatives operations.

Seattle-First vigorously opposes inclusion of this amendment, and for several reasons.

First, we are convinced that the domestic banks and their foreign correspondents are entirely meeting the export-finance needs of the farming community, and we have not heard arguments to the contrary. Export financing does not contain the same types and levels of risk exposures as do other agricultural financing activities. Virtually any bank with international capability actively seeks export loans; we, along with other commercial banks in Washington State, have established operations geared to this specific activity.

Second, we perceive the competition among commercial banks for financing of agricultural exports to be intense, and have no knowledge of legitimate export transactions being prevented by lack of financing. Therefore, we do not believe that the stated purpose of the amendment, "to promote the expansion of United States agricultural exports . . ." would be effected if the BCs were permitted to provide the service.

Third, it is clear that this amendment goes beyond any intention of the original Farm Credit Act of 1971.

Fourth, if the BCs are permitted to solicit this kind of business, the competition between them and commercial banks would not be between equals. The BCs have the option of offering many services at cost; their loans are funded with money obtained from sale of agency paper under the aegis of the United States Government; they enjoy certain tax and accounting advantages not available to commercial banks; they need not cost their capital under the same market conditions required of private enterprises. We fear that unjustified harm will occur to banks such as ours if we are forced to compete with the BCs on such an unequal footing.

Finally, and as a recapitulation, we cannot understand any logic which would have the public sector partially or totally replace an activity which is efficiently and effectively handled by the private sector.

For these reasons, we strongly recommend that this amendment be stricken from the bill. We would be happy, however, to work with the Spokane Bank of Co-ops in designing a palatable package which could be utilized with our bank and other western banks which have international banking departments. This would fully accomodate the export-finance needs of their member co-ops, if any such service is presently lacking.

2. Financing Processing and Marketing Activities of Farmers

Another major amendment which concerns us would permit Production Credit Associations (PCAs) and Federal Land Banks (FLBs) to finance processing and marketing activities for farmers and others.

Seattle-First opposes this amendment, for many of the same reasons that we find the export-financing amendment objectionable.

First, we feel that the needs of farming and ranching operations are adequately met through the keen competition between national and state charter banking associations and others in the field of agricultural finance.

Second, we understand that this authority could be used to qualify current non-production agri-businesses by having them establish some minor production-related activities. Again, this would seriously undermine the competitive viability of many community banks, in that they could not equitably compete with the PCAs and FLBs for this type of business.

Lastly, Congress wisely decided in 1971 to limit such agricultural financing on the part of PCAs and FLBs to on-farm activities. We do not think that any context has changed since then which would warrant such encroachment now.

If major farm accounts needed the financing capacity to build a facility for marketing and processing on an economically sound basis, and if that

basis would require that other producers' products be considered as part of the "processing base", then a participation with a commercial bank could be arranged so that the agri-business financing for "off-farm" activities could be handled.

3. Cooperative Eligibility for Financing from Banks for Cooperatives

This amendment would reduce from 80% to 60% the requirement that voting members of cooperatives borrowing from BCs be farmers.

We believe that the current ratio of farm- to non-farm membership is sufficient to serve those communities which truly need a cooperative. BCs were established to fund agriculturally-based cooperatives with the purpose of allowing farmers to band together to buy and sell products. If an agricultural community is utilizing its cooperative, there should be enough farm constituents available to support it on the current 80% ratio.

It is entirely possible that, as a community and membership base of a cooperative moves in transition from rural to urban, the cooperative can "graduate" to more conventional forms of financing. There are a number of agricultural cooperatives in the State of Washington to which Seattle-First provides active financing, and we are aware of other banks who finance major northwest cooperatives with no unusual problems. To reduce the eligibility requirement to 60% would unnecessarily liberalize the system, and potentially open it to intent-of-law violations, especially since the word "farmer" is not adequately defined.

4. Increase in FLBs 85% Loan Value Lending Limitation

This proposed amendment would allow FLBs to make real estate loans in excess of 85% of the appraised value of the property securing the loan, when guarantees are provided by government agencies.

This amendment would make it possible for the FLBs to expand financing to limited-equity farmers, such as young farmers. It would also keep pace with the current shift in emphasis by the Farmers Home Administration from making its own loans, to guaranteeing loans by other lenders.

We can sympathize with the intent of this amendment, but we just do not think that it would be prudent banking. There is substantial risk in the agricultural financing business, particularly in dealing with day-to-day operating lines of credit. If there is no equity position in the major real estate asset, many commercial banks may become reluctant to extend needed operating capital. If the farmer has a bad crop year, our fear is that there could be severe cash-flow problems in servicing a 100% loan.

For these reasons, we recommend that loan/value lending in excess of 85% not be permitted, unless the most rigorous examination proves it well-advised.

Conclusion

These four amendments embody, in order, the chief elements of the proposed bill about which we have strong concerns. Beyond these amendments, our concerns are echoed and best expressed by any testimony that the American Bankers Association may have submitted on this bill. As a member of the ABA, we support and concur with their positions.

Seattle-First National Bank is grateful for the opportunity to submit testimony on this bill. We will gladly supply any further information to the Committee in support of our argument.

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